PRUDENTIAL INDICATORS

1. Estimates of ratio of financing costs to net revenue stream
2. Actual ratio of financing costs to net revenue stream (after year end)
3. Estimates of the incremental impact of capital investment decisions on the Council Tax
4. Net borrowing and the capital financing requirement (key indicator of prudence)
5. Compliance with the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
6. Estimates of capital expenditure (years 1,2,3 and more if applicable)
7. Actual Capital expenditure (after year end)
8. Estimates of capital financing requirement (for 3 years)
9. Actual capital financing requirement (after year end)
10. Authorised limit for external debt.
11. Operational boundary for external debt.
12. Actual external debt (after year end)

TREASURY MANAGEMENT INDICATORS

1. Upper limit on fixed interest rate exposure
2. Upper limit on variable interest rate exposure
3. Upper limit for the maturity structure of borrowing
4. Lower limit for the maturity structure of borrowing
5. Limits for principal sums invested for periods longer than 364 days

Source: CIPFA Prudential Code for Capital Finance in Local Authorities (2009) and CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2009)

TREASURY MANAGEMENT POLICY STATEMENT

1. The Council defines its Treasury Management activities as :

   - the management of its cash flows;
   - its banking, money market and capital market transactions;
   - the effective control of the risk associated with those activities; and
   - the pursuit of optimum performance consistent with those risks.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will focus on their risk implications for the Council

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

4. Treasury operations are managed with the overall strategy approved by the Council at four levels :

   - Formal reviews of strategy and performance by the Director of Resources and Financial Services Manager in conjunction with representatives from our external advisors;

   - The Treasury Management Review panel was established following the collapse of the banks with Icelandic connections. This panel is now responsible for ensuring effective scrutiny of the treasury management strategy and policies, before Cabinet makes recommendations to Council. This is in compliance with the revised CIPFA Treasury Management Code of Practice and accordingly recommendations are now made to update the Financial Regulations/Constitution to reflect the new scrutiny requirements.

   - Monthly monitoring conducted by Director of Resources and Financial Services Manager;

   - On a daily basis by Accountancy team members under the direction of Financial Services Manager.

TREASURY MANAGEMENT PRACTICES (TMP)

TMP1 RISK MANAGEMENT

1.1 General Statement

1.1.1 The Director of Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report at least annually on their adequacy/suitability. He will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.* In respect of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Appendix 4 attached.

1.2 Credit and Counterparty risk management

1.2.1 A key objective of treasury management activities is the security of the principal sums invested. Accordingly, Counterparty lists and limits will reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques.* Therefore, there is a need to have, and maintain, a formal counterparty policy in respect of those organisations from which to borrow, or with whom to enter into other financing arrangements.

1.3 Liquidity risk management

1.3.1 Adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities are needed at all times to ensure that the level of funds are available for the achievement of the service objectives.

1.3.2 Borrowing in advance of need will only take place where there is a clear business case to do so and will only be done so for the current capital programme or to finance future debt maturities.

1.4 Interest Rate risk management

1.4.1 Exposure to fluctuations in interest rates should be managed with a view to containing interest costs, or securing interest revenues, in accordance with the amounts provided in the Budget in accordance with TMP6 *Reporting requirements and management information arrangements.*

1.4.1 This objective shall be achieved by the prudent use of approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

1.5 Exchange Rate risk management

1.5.1 Exposure to fluctuations in exchange rates should be managed to minimize any detrimental impact on its budgeted income/expenditure levels.

1.6 Refinancing risk management

1.6.1 Borrowing, private financing and partnership arrangements need to be negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

1.6.2 Relationships with counterparties should be actively managed in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise this achievement.

1.7 Legal and regulatory risk management

1.7.1 Treasury management activities shall comply with statutory powers and regulatory requirements. Compliance will be demonstrated, if required, to any party that is dealt with in such activities. In framing the credit and counterparty policy under TMP1.5 *Credit and Counterparty risk management* evidence of counterparties' powers, authority and compliance in respect of the transactions effected with the organisation, particularly with regard to duty of care and fees charged, will be ensured.

1.7.2 Where any future legislative or regulatory changes affect treasury management activities, any risk of these impacting adversely should be minimised so far as it is reasonably possible to do so.

1.8 Fraud, error, corruption and contingency management

1.8.1 Circumstances which may expose the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings should be identified. Suitable systems and procedures shall be employed and effective contingency management arrangements maintained.

1.9 Market risk management

1.9.1 Treasury management policies and objectives should not be compromised by adverse market fluctuations in the value of the principal sums invested and protection should be sought from the effects of such fluctuations.

TMP2 <u>PERFORMANCE MEASUREMENT</u>

2.1 This Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the treasury management policy statement.

2.2 Accordingly, the treasury management functions will be the subject of ongoing analysis of the value it adds in support of the Council's business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria as determined by the Director of Resources.

TMP3 DECISION-MAKING AND ANALYSIS

3.1 There shall be maintenance of full records of treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued shall be determined by the Director of Resources.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Treasury management activities shall be undertaken by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk Management.*

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 It is essential, for the purposes of the effective control and monitoring of treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibility.

5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

5.3 If and when, as a result of lack of resources or other circumstances, it is intended to depart from these principles, the Director of Resources will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

5.4 The Director of Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

5.5 The Director of Resources will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

5.6 The delegations to the Director of Resources in respect of treasury management are set out in the schedule to this document. He will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management.*

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Regular reports shall be prepared and considered on the implementation of treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

6.2 As a minimum, The Cabinet will receive:

- an annual report on the strategy and investment policy to be pursued in the coming year.
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

6.3 The Cabinet will receive regular monitoring reports on treasury management activities and risks.

6.4 The Treasury Management Review Panel will have responsibility for the scrutiny of treasury management policies and practices.

6.5 The Council will report the treasury management indicators as detailed in their sector-specific guidance notes.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 The Director of Resources will prepare, and this Council will approve an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management,* TMP2 *Performance measurement,* and TMP4 *Approved instruments, methods and techniques.* The Director of Resources will exercise effective controls over this budget, and will report upon and recommend any significant changes required in accordance with TMP6 *Reporting requirements and management information arrangements.*

7.2 All treasury management activities, decisions made and transactions executed, shall be accounted for in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

7.3 This Council will ensure that its auditors and those charged with regulatory review, shall have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 CASH AND CASH FLOW MANAGEMENT

8.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hand of this Council will be under the control of the Director of Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Resources will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1) *liquidity risk management.*

TMP9 MONEY LAUNDERING

9.1 This Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, procedures shall be maintained for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 STAFF TRAINING AND QUALIFICATIONS

10.1 It is important that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore be necessary to seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Resources will recommend and implement the necessary arrangements.

10.2 The Director of Resources will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

10.3 Those charged with governance must recognise their individual responsibility to ensure that have the necessary skills to complete their role effectively.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times.

11.2 The potential value of employing external providers of treasury management services is recognised, in order to acquire access to specialist skills and resources. When such service providers are employed it shall be for reasons which will have been submitted to a full evaluation of the costs and benefits.

11.3 The terms of their appointment and the methods by which their value shall be assessed, properly agreed and documented, and subjected to regular review. Where feasible and necessary, a spread of service providers shall be used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Resources and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

12.1 This Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities shall be undertaken with openness and transparency, honesty, integrity and accountability.

12.2 This Council has adopted and has implemented the key recommendations of the CIPFA Treasury Management in the Public Services Code of Practice. This, together with the other arrangements detailed in these Treasury Management Practices, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES – DETAILED RESPONSIBILITIES, COMPLIANCES AND LIMITATIONS

1. TMP1 - RISK MANAGEMENT

1.1 Interest Rate Exposure

1.1.1 It is a requirement of the Local Government Act 2003 and the CIPFA Prudential Code that local authorities approve the maximum proportion of interest on borrowing which is subject to fixed and variable rate interest. This policy is fixed each year by Council prior to the beginning of the financial year to which it applies.

2. TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

2.1 Approved Methods of Raising Capital Finance

2.1.1 Capital finance may only be raised by means of authorised loan, lease, gifts, joint ventures, grants, operational lease, capital receipts, revenue contributions and approved funds.

2.2 Approved Sources of Financing

2.2.1 There shall be no general restriction on the sources of borrowing (except for foreign currency which is excluded). This includes any credit institution authorised by an E.C. Member state - in sterling only.

3. TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

3.1 **The Chief Executive**:-

- Ensures that systems are laid down and resourced.

3.2 **The Director of Legal & Corporate Services**:-

3.2.1 As Monitoring Officer

- Has the ability (but not the express duty) to call upon the Management Auditor to check compliance by the Director of Resources with the Treasury Management Policy Statement and that the Statement (or any proposed variation to it) complies with the law.

- May advise the Director of Resources where the Director of Legal & Corporate Services' advice is sought.

3.3 **The Director of Resources will be responsible for**:-

- Preparing the Treasury Management Policy Statement.
- Preparing a Treasury Management Strategy, Investment Strategy and MRP Policy
- Ensuring that the Treasury Management Practices are regularly reviewed.
- Deciding on funding and short-term policies for the ensuing period.
- Deciding on lending and investment policy for the ensuing period.
- Advising on the acceptability and characteristics of treasury instruments.
- Reviewing performance of the treasury management function at least twice a year.
- Ensuring that the organisation of the treasury management function is structured and managed in a fully integrated way and that there is at all times a clarity of treasury management responsibilities.
- That there is proper documentation for all deals, transactions and transmission of funds.
- Preparation of an annual budget for treasury management for approval by Council.
- Cash flow projections on a regular and timely basis to ensure that there is at all times a level of funding available for the Council's service activity needs.
- Monitoring adherence to approved policy.
- Assessing and appointing brokers.
- Assessing and appointing Investment Managers if that course of action is projected to be beneficial to the Council.
- Maintaining full records of treasury management decisions and the processes and practices applied in reaching those decisions.
- Ensuring that all Treasury staff are aware of and have access to a copy of the Bank of England's current version of the "Non-Investment Product Code".
- Reporting to elected members and advising the Monitoring Officer where that is appropriate.

3.4 <u>Policy on Delegation</u>

3.4.1 The extent of delegation shall be as described in the foregoing paragraphs. However, should new advice or regulations be received which require urgent action then the Director of Resources, in consultation with the Leader of the Council shall have authority to amend the Treasury Management Policy Statement prior to reporting to the next Council.

4. TMP6 - <u>REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS</u>

4.1 The Treasury Management Policy Statement shall be reviewed as appropriate by Council.

5. TMP9 - <u>MONEY LAUNDERING</u>

Schedules Addressing this Council's Compliance

In order to address these requirements the Council has set up the following procedures :

5.1 **Training -** Through this document and specific training, staff will be kept aware of developments in money laundering regulations and the appropriate staff are encouraged to keep abreast of money laundering issues through publications and the internet. The Money Laundering Reporting Officer will be required to attend specific professional courses on money laundering development to ensure local knowledge is kept up to date.

5.2 **Material and regular deposits or borrowing -** For all investment or borrowing counterparties, the Council will ensure that the counterparty has been suitably identified. This will take the form of :

a) Investment Counterparties - All investment counterparties which are maintained on the Council's lending list should be a deposit taker authorised by a regulatory body (e.g. the FSA). As such the identification procedures usually required above do not apply since the institution carries out relevant business in the UK. Those counterparties not authorised as a deposit taker through the FSA are institutions, such as the Bank of England or Post Office, are not required to be the subject of stringent identification procedures, but the Council will review these on a case by case basis.

b) Borrowing Counterparties - All borrowing counterparties are dealt with through either of the following routes :

i) **Via Money Brokers - In this instance Money Laundering** Regulations 5(2) applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK. However even when dealing via a broker it is the council's responsibility to verify the counterparty, not the broker's; or

ii) **Direct Dealing - in this instance the Council uses** only recognised names, ones with credit ratings and to which the Council has reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions (such as Bank of England or Post Office), the nature of their business does not require stringent identification procedures, but the council will undertake procedures to "know the counterparty".

5.3 If any treasury investment counterparties are not known to the Council, the treasury officer will ensure identification of the counterparty by checking the credit rating of the organisation via the Council's treasury advisers Butlers. This would normally be undertaken during the compilation of the counterparty list. If the counterparty is neither credit rated, nor known to be carrying on regulated business (e.g. FSA), the Council will not deal with that organisation.

5.4 **Small or irregular treasury deposits** - The Council may from time to time accept deposits from local institutions or individuals. In these circumstances the Council will require and copy identification of the institution's contact officer or individual and the Council will take such steps that are reasonable (as defined by the Council) to ensure the activities and operations of the counterparty are appropriate. The identification process and documentation will be held with the information relating to the transaction. In the event that identification is inadequate or not forthcoming the Council will not deal with that institution or individual.

5.5 **Reporting** - The Money Laundering Reporting Officer for this Council is the Director of Resources. Any concern of a transaction possibly being linked to either money laundering or the proceeds of crime must be referred to the Money Laundering Reporting Officer for consideration and if the concerns are validated the National Criminal Intelligence Service must be notified.

WYRE FOREST DISTRICT COUNCIL

INVESTMENT STRATEGY

BACKGROUND

1. Following the issue by the Office of the Deputy Prime Minister (ODPM) of Local Government Investments - Guidance under Section 15(1)(a) of the Local Government Act 2003, the Council are required to update Wyre Forest's Investment Strategy and review on an annual basis.

COMPLIANCE

2. The Council's Investment Strategy shall comply with Guidance issued by the ODPM (now known as Communities and Local Government (CLG)) and shall have regard to the Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes (2009).

3. The Investment Strategy shall be reviewed on an annual basis by Council as part of the Budget Process.

OVERRIDING PRINCIPLE

4. Priority should be given to security and liquidity. Whilst seeking the highest rate of returns on the Council Investments consistent with the proper levels of security and liquidity.

INVESTMENT STRATEGY

5. All Investments will be made in accordance with the Council's investment policies and prevailing legislation, regulations and guidance.

6. Direct investments be made with only those Organisations identified in the 'Approved Organisations for Investments' - see Appendix 6.

7. Individual investment limits to be those identified on Appendix 6.

8. Minimum credit ratings for individual Organisations should be adhered to and be those identified on the Schedule. Credit Ratings to be monitored on an ongoing basis with information provided by the Council's Treasury Management Consultants 'Butlers'. In respect of Building Societies, the Council will use the same credit ratings and criteria as for Banks.

9. Whilst taking into account the overriding principle (see paragraph 4 above) the Strategy for investments is to lend funds which are surplus (after cash flow requirements have been taken into account) on a longer term basis where interest rates are projected to fall or show little upwards movements. Alternatively, should interest rates be forecast to move noticeably upwards, to lend surplus funds on a shorter term basis, unless materially higher long term interest rates can be obtained, when surplus funds should be lent on a longer term basis.

10. The use of specialist investment managers be considered by the Director of Resources on an ongoing basis, to manage a proportion of the Council's Investments (minimum market requirement usually £10 million) where market conditions are considered favourable to achieve higher overall investment returns. Specialist investment managers will be appointed by the Director of Resources under delegated powers and subject to the Council's Standing Orders Relating to Contract if applicable.

11. No more than the maximum sums to be invested (see 5.7.2 of this report) of the Council's Investments shall be made as Non-Specified Investments.

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service - A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are :

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £750k

- Liquid short term deposits of at least £2m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAl would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.03 years, with a maximum of 0.81 years.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

Long term rating	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%

The Council's minimum long term rating criteria is currently "AA-", meaning the average expectation of default for a one year investment in a counterparty with a "AA-" long term rating would be 0% of the total investment. This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0% historic risk of default when compared to the whole portfolio.

And in addition that the security benchmark for each individual year is:

	1 year	**2 years**
Maximum	0%	0%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

WYRE FOREST DISTRICT COUNCIL

APPROVED ORGANISATIONS FOR INVESTMENTS

Banks & Building & Societies – High Credit Quality – the Council will only use banks that fulfil the criteria below:

The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poors	Money Limit*	Time Limit
Bank & Building Societies (1) Limit Category (*)	**F1+ / AA- / C/D / 1**	**P-1 / Aa3 / C-**	**A-1+ / AA-**	**£5m**	**2 years**
Bank & Building Societies (2) Limit Category (*) (***)	**F1+ / AA- / 1**	**P-1 / Aa3**	**A-1/A+**	**£3m**	**3 months**
Bank & Building Societies (3) Limit Category(*) (****)	**F1+ / 1**	**P-1**	**A-1**	**£3m**	**Instant Access**
The Council's own Bank	**-**	**-**	**-**	**£1m**	**End of Day Balance**
Other Institution Limits	**-**	**-**	**-**	**£8m**	**n/a**
DMADF	**-**	**-**	**-**	**unlimited**	**n/a**
Money Market Funds – AAA rated	**-**	**-**	**-**	**£5m**	**n/a**
Overseas Banks where the Sovereign Rating is AAA (**)	**F1+ / AA- / C/D / 1**	**P-1 / Aa3 / C-**	**A-1+ / AA-**	**£5m**	**2 years**

* *These limits cover both Specified and Non-Specified Investments. The limit is also subject to no more than 25% of outstanding investments being placed with any one institution at one time. For organisations with a negative watch, the Leader and Chief Executive will continue to have delegated authority to consider inclusion on the approved lending list.*

** *No more than 30% of investments will be placed with any individual non-UK country at any time.*

*** *Condition required on the strength rating is that the organisation is either an eligible institution under the Credit Guarantee Scheme or is part owned by the Government.*

**** *Condition required on the strength rating is that the organisation is either an eligible institution under the Credit Guarantee Scheme or is part owned by the Government, but only used for Instant access call accounts, hence only referring to Short Term ratings*

1. The Other Institution Limit will be for other local authorities and Money Market Funds. These are all considered high quality names – although not always rated.

2. Where a bank is part of a group then the total exposure to the group will be the same as the individual exposure assigned to the parent organisation.

3. Bank Subsidiary and Treasury Operations – the Council will use these where the parent bank <u>and</u> the subsidiary have the necessary ratings outlined above.

These limits will cover both Specified and Non-Specified Investments.

Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from this criteria to safer instruments and institutions. Currently this involves the use of the Debt Management Account Deposit Facility (DMADF), AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management.

The Office of the Deputy Prime Minister (now Communities and Local Government) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 28/09/2006 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Office (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity).

2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

For category 4 this covers a money market fund rated ***AAA*** by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with a minimum rating of **F1+** (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is…

	Fitch	Moody's	Standard & Poors	Money Limit*	Time Limit
Bank & Building Societies (1) Limit Category (*)	**F1+ / AA- / C/D / 1**	**P-1 / Aa3 / C-**	**A-1+ / AA-**	**£5m**	**2 years**
Bank & Building Societies (2) Limit Category (*) (***)	**F1+ / AA- / 1**	**P-1 / Aa3**	**A-1/A+**	**£3m**	**3 months**
Bank & Building Societies (3) Limit Category(*) (****)	**F1+ / 1**	**P-1**	**A-1**	**£3m**	**Instant Access**
The Council's own Bank	**-**	**-**	**-**	**£1m**	**End of Day Balance**
Other Institution Limits	**-**	**-**	**-**	**£8m**	**n/a**
DMADF	**-**	**-**	**-**	**unlimited**	**n/a**
Money Market Funds – AAA rated	**-**	**-**	**-**	**£5m**	**n/a**
Overseas Banks where the Sovereign Rating is AAA (**)	**F1+ / AA- / C/D / 1**	**P-1 / Aa3 / C-**	**A-1+ / AA-**	**£5m**	**2 years**

* *These limits cover both Specified and Non-Specified Investments. The limit is also subject to no more than 25% of outstanding investments being placed with any one institution at one time. For organisations with a negative watch, the Leader and Chief Executive will continue to have delegated authority to consider inclusion on the approved lending list.*

** *No more than 30% of investments will be placed with any individual non-UK country at any time.*

*** *Condition required on the strength rating is that the organisation is either an eligible institution under the Credit Guarantee Scheme or is part owned by the Government.*

**** *Condition required on the strength rating is that the organisation is either an eligible institution under the Credit Guarantee Scheme or is part owned by the Government, but only used for Instant access call accounts, hence only referring to Short Term ratings*

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£)**
a.	Any **bank or building society** that has a minimum long term credit rating of **AA-**, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	*Limits as above*
b.	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	*Limits as above*

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The effect of such changes will be reported to Members. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources, and if required new counterparties which meet the criteria will be added to the list.

The Council will also have regard to the use of additional information other than credit ratings – Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

S&P ISSUER CREDIT RATING DEFINITIONS

A Standard & Poor's issuer credit rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The issuer credit rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor.

Counterparty credit ratings, ratings assigned under the Corporate Credit Rating Service (formerly called the Credit Assessment Service) and sovereign credit ratings are all forms of issuer credit ratings.

Issuer credit ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any issuer credit rating and may, on occasion, rely on unaudited financial information. Issuer credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Issuer credit ratings can be either long term or short term. Short-term issuer credit ratings reflect the obligor's creditworthiness over a short-term time horizon.

Long-Term Issuer Credit Ratings

AAA

An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.

AA

An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A

An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB, B, CCC, and CC

Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB

An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B

An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC

An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

CC

An obligor rated 'CC' is currently highly vulnerable.

Plus (+) or minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

R

An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D

An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR

An issuer designated NR is not rated.

Short-Term Issuer Credit Ratings

A-1

An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.

A-2

An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

A-3

An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

B

An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. Ratings of 'B-1', 'B-2', and 'B-3' may be assigned to indicate finer distinctions within the 'B' category. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

B-1: Obligors with a 'B-1' short-term rating have a relatively stronger capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

B-2: Obligors with a 'B-2' short-term rating have an average speculative-grade capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

B-3: Obligors with a 'B-3' short-term rating have a relatively weaker capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

C

An obligor rated 'C' is currently vulnerable to nonpayment and is dependent upon favourable business, financial, and economic conditions for it to meet its financial commitments.

R

An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see

Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D

An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR

An issuer designated NR is not rated.

Moody's Bank Deposit Ratings

Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations. Foreign currency deposit ratings are subject to Moody's country ceilings for foreign currency deposits. This may result in the assignment of a different (and typically lower) rating for the foreign currency deposits relative to the bank's rating for domestic currency obligations.

Unless otherwise indicated, Moody's Bank Deposit Ratings apply to a bank's foreign and domestic currency deposit obligations. A bank may also be assigned different (typically higher) domestic currency deposit ratings that are unconstrained by the respective country ceilings for foreign currency deposits.

Foreign currency deposit ratings are applicable only to banks and branches located in countries that have been assigned a country ceiling for foreign currency for bank deposits. Such obligations are rated at the lower of the bank's deposit rating or Moody's country ceiling for bank deposits for the country in which the branch is located.

Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk that are relevant to the prospective payment performance of the rated bank with respect to its foreign and/or domestic currency deposit obligations. Included are factors such as intrinsic financial strength, sovereign transfer risk (for foreign currency deposits), and both implicit and explicit external support elements.

Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes that make payments to depositors, but they do recognize the potential support from schemes that may provide direct assistance to banks.

In addition to its Bank Deposit Ratings, Moody's also publishes Bank Financial Strength Ratings, which exclude certain of these external risk and support elements (i.e., sovereign risk and external support). Such ratings are intended to elaborate and explain Moody's Bank Deposit Ratings, which incorporate and reflect such elements of credit risk.

Long-Term Bank Deposit Ratings

Moody's long-term bank deposit ratings employ the same alphanumeric rating system as that for long-term issuer ratings.

Aaa

Banks rated Aaa for deposits offer exceptional credit quality and have the smallest degree of risk. While the credit quality of these banks may change, such changes as can be visualized are most unlikely to materially impair the banks' strong positions.

Aa

Banks rated Aa for deposits offer excellent credit quality, but are rated lower than Aaa banks because their susceptibility to long-term risks appears somewhat greater. The margins of protection may not be as great as with Aaa-rated banks, or fluctuations of protective elements may be of greater amplitude.

A

Banks rated A for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

Baa

Banks rated Baa for deposits offer adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Ba

Banks rated Ba for deposits offer questionable credit quality. Often the ability of these banks to meet punctually deposit obligations may be uncertain and therefore not well safeguarded in the future.

B

Banks rated B for deposits offer generally poor credit quality. Assurance of punctual payment of deposit obligations over any long period of time is small.

Caa

Banks rated Caa for deposits offer extremely poor credit quality. Such banks may be in default, or there may be present elements of danger with regard to financial capacity.

Ca

Banks rated Ca for deposits are usually in default on their deposit obligations.

C

Banks rated C for deposits are usually in default on their deposit obligations, and potential recovery values are low.

Note: Moody's appends the numerical modifiers 1, 2, and 3 to each generic rating category from Aa to Caa. The modifier 1 indicates that the bank is in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the bank is in the lower end of its letter-rating category.

Short-Term Bank Deposit Ratings

Moody's employs the following designations to indicate the relative repayment ability for bank deposits:

P-1

Banks rated Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short-term deposit obligations.

P-2

Banks rated Prime-2 for deposits offer strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

P-3

Banks rated Prime-3 for deposits offer acceptable credit quality and an adequate capacity for timely payment of short-term deposit obligations.

NP

Banks rated Not Prime for deposits offer questionable to poor credit quality and an uncertain capacity for timely payment of short-term deposit obligations.

Bank Financial Strength Ratings

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. In addition to commercial banks, Moody's BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government-sponsored financial institutions and national development financial institutions.

Unlike Moody's Bank Deposit Ratings, Bank Financial Strength Ratings do not address the probability of timely payment. Instead, Bank Financial Strength Ratings are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions.

Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations.

Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Bank Financial Strength Rating Definitions

A

Banks rated A possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very predictable and stable operating environment.

B

Banks rated B possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

C

Banks rated C possess adequate intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment.

D

Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise; financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.

E

Banks rated E display very modest intrinsic financial strength, with a higher likelihood of periodic outside support or an eventual need for outside assistance. Such institutions may be limited by one or more of the following factors: a weak and limited business franchise; financial fundamentals that are materially deficient in one or more respects; or a highly unpredictable or unstable operating environment.

Note: Where appropriate, a "+" modifier will be appended to ratings below the "A" category and a "-" modifier will be appended to ratings above the "E" category to distinguish those banks that fall in intermediate categories.

Fitch International Long-Term Credit Ratings

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations.

The following rating scale applies to foreign currency and local currency ratings:

Investment Grade

AAA
Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA
Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A
High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB
Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

Speculative Grade

BB
Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B
Highly speculative.

- For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
- For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).

CCC

- For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions.
- For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).

CC

- For issuers and performing obligations, default of some kind appears probable.
- For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).

C

- For issuers and performing obligations, default is imminent.
- For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).

RD
Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honor other classes of obligations. .

D
Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following:

- Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation;
- The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor;
- The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Default ratings are not assigned prospectively; within this context, non-payment on an instrument that contains a deferral feature or grace period will not be considered a default until after the expiration of the deferral or grace period.

Issuers will be rated 'D' upon a default. Defaulted and distressed obligations typically are rated along the continuum of 'C' to 'B' ratings categories, depending upon their recovery prospects and other relevant characteristics. Additionally, in structured finance transactions, where analysis indicates that an instrument is irrevocably impaired such that it is not expected to meet pay interest and/or principal in full in accordance with the terms of the obligation's documentation during the life of the transaction, but where no payment default in accordance with the terms of the documentation is imminent, the obligation may be rated in the 'B' or 'CCC-C' categories.

Default is determined by reference to the terms of the obligations' documentation. Fitch will assign default ratings where it has reasonably determined that payment has not been made on a material obligation in accordance with the requirements of the obligation's documentation, or where it believes that default ratings consistent with Fitch's published definition of default are the most appropriate ratings to assign.

Notes to International Long-Term ratings:

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-term rating category, to categories below 'CCC', or to Short-term ratings other than 'F1'. (The +/- modifiers are only used to denote issues within the CCC category, whereas issuers are only rated CCC without the use of modifiers.)

Rating Watch: Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

International Short-Term Credit Ratings

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

F1
Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2
Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3
Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.

B
Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C
High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

D
Indicates an entity or sovereign that has defaulted on all of its financial obligations.

Individual Ratings

Individual Ratings are assigned only to banks. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk, and thus represent our view on the likelihood that it would run into significant difficulties such that it would require support.

The principal factors we analyze to evaluate the bank and determine these ratings include profitability and balance sheet integrity (including capitalization), franchise, management, operating environment, and prospects. Finally, consistency is an important consideration, as is a bank's size (in terms of equity capital) and diversification (in terms of involvement in a variety of activities in different economic and geographical sectors).

A denotes:
A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.

B denotes:
A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C denotes:
An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

D denotes:
A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.

E denotes:
A bank with very serious problems, which either requires or is likely to require external support.

F denotes:
A bank that has either defaulted or, in Fitch’s opinion, would have defaulted if it had not received external support. Examples of such support include state or local government support, (deposit) insurance funds; acquisition by some other corporate entity or an injection of new funds from its shareholders or equivalent.

Notes:
Gradations may be used among the five ratings: i.e. A/B, B/C, C/D, and D/E.

(s)
An Individual rating may be followed by the suffix (s), denoting that it is largely based on public information, though supplemented by data obtained from the rated entity.

Support Ratings

The Purpose and Function of Support Ratings
Support ratings offer Fitch's judgement of a potential supporter's (either a sovereign state's or an institutional owner's) propensity to support a bank and of its ability to support it. Its ability to support is set by the potential supporter's own Fitch Long-term debt rating, both in foreign currency and, where appropriate, in local currency. Support ratings have a direct

link to Long-term debt ratings, but they do not, nevertheless, assess the intrinsic credit quality of a bank. Rather they communicate Fitch Ratings' judgement on whether the bank would receive support should this become necessary. It is emphasised that these ratings are exclusively the expression of Fitch's opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements
Fitch's Support rating definitions are predicated on the assumption that any necessary "support", either in foreign currency, or where appropriate, local currency, is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Local Currency vs. Foreign Currency and Obligations and Financial Instruments Covered
In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency.

It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, acceptances and avals; trade receivables and obligations arising from court judgements.

Likewise, it is assumed that typically the following capital instruments will not be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and "upper" tier 2), including Reserve Capital Instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations.

The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Support Ratings in Emerging Market Economies
Not surprisingly, the propensity and ability of emerging market states and of owners of banks in emerging market states to support their banks are subject to many more debilitating extraneous influences than is the case in developed states. As a consequence, Support ratings and Long-term rating floors for banks in emerging markets are likely to be more volatile than in developed countries. The other major threat in such economies is "force majeure", i.e. such developments as the imposition by the national political authorities of foreign exchange controls, bank deposit freezes, interruption of payments systems, expropriation of businesses or war. These risks are reflected in the Sovereign rating of the country in question and, therefore, are factored into Support ratings either directly, where the sovereign is the provider of support, or indirectly by means of the country ceiling "cap" in the case of institutional support.

Criteria and Method
As already indicated, two types of potential supporter are predicated: sovereign states and institutional owners. Individuals and families, who own banks, are not taken into account: their motivation is likely to be ruled by sentiment and by the instinct of self-preservation, and therefore their propensity to support is impossible to predict. Also, their ability to support cannot usually be assessed. The following are taken into account as determinants of the propensity of sovereigns and institutions to support banks:

Sovereign unitary or federal state support: there are three broad categories of criteria: state guarantees and commitments; relationship with the state; and importance of the bank to the state.

Institutional owner or owners: there are four broad categories of criteria: guarantees and commitments; percentage control; nature of the owner; and importance of the bank to the owning institution(s).

1 denotes:
A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

2 denotes:
A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

3 denotes:
A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

4 denotes:
A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

5 denotes:
A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Wyre Forest District Council
Proposed Lending List 2010/11 (ratings as at 25th January 2010 and are subject to amendment)

Counterparty	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin. Stght	S. Term	L. Term	Time	Money
UK Banks											
United Kingdom	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
(*) BANCO SANTANDER CENTRAL HISPANO GROUP											
Santander UK Plc	F1+	AA-	B	1	P-1	Aa3	C-	A-1+	AA	2 yrs	£5m
(*) HSBC GROUP											
HSBC Bank plc	F1+	AA	B	1	P-1	Aa2	C+	A-1+	AA	2 yrs	£5m
(*) LLOYDS BANKING GROUP											
Bank of Scotland Plc	F1+	AA-	C	1	P-1	Aa3	D+	A-1	A+	3 mths	£3m (CGS)
Lloyds TSB Bank	F1+	AA-	C	1	P-1	Aa3	C-	A-1	A+	3 mths	£3m (CGS)
(*)ROYAL BANK OF SCOTLAND GROUP											
Royal Bank of Scotland	F1+	AA-	D/E	1	P-1	Aa3	C-	A-1	A+	3 mths	£3m (CGS)
(*) NATIONAL AUSTRALIA BANK GROUP											
Clydesdale Bank	F1+	AA-	C	1	P-1	A1	C-	A-1	A+	I/A	£3m (CGS)

Counterparty	**Fitch Ratings**				**Moody's Ratings**			**S&P Ratings**		**Limits**	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin. Stght	S. Term	L. Term	Time	Money
UK Banks (cont.d)											
Barclays Bank	F1+	AA-	B	1	P-1	Aa3	C	A-1+	AA-	2 yrs	£5m
Other UK Banks											
Co-operative Bank Plc	F2	A-	B/C	3	P-1	A2	D+	n/a	n/a	EOD Balance	£1m
UK BUILDING SOCIETIES											
United Kingdom	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
Nationwide Building Society	F1+	AA-	B	1	P-1	Aa3	C-	A-1	A+	3 mths	£3m (CGS)
OTHERS											
Debt Management Office											No limit
Local Authorities											£5m
Money Market Funds											£5m

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Appendix 8

Counterparty	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin. Stght	S. Term	L. Term	Time	Money
OVERSEAS BANKS											
Canada	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
Bank of Nova Scotia	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	2 yrs	£5m
Royal Bank of Canada	F1+	AA	A/B	1	P-1	Aaa	B+	A-1+	AA-	2yrs	£5m
Toronto-Dominion Bank	F1+	AA-	B	1	P-1	Aaa	B+	A-1+	AA-	2yrs	£5m
Finland	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
(*) NORDEA GROUP Nordea Bank Finland	F1+	AA-	B	1	P-1	Aa2	B-	A-1+	AA-	2yrs	£5m
France	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
(*) BNP PARIBAS GROUP BNP Paribas	F1+	AA	B	1	P-1	Aa2	B-	A-1+	AA	2yrs	£5m
(*) CREDIT AGRICOLE GROUP Credit Agricole	F1+	AA-	B	1	P-1	Aa1	B-	A-1+	AA-	2yrs	£5m
Credit Lyonnais	F1+	AA-	B/C	1	P-1	Aa1	C+	A-1+	AA-	2yrs	£5m
Netherlands	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
Rabobank	F1+	AA+	A	1	P-1	Aaa	B+	A-1+	AAA	2yrs	£5m
Singapore	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
Development Bank of Singapore	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	2yrs	£5m
OVERSEA CHINESE BANKING CORP	F1+	AA-	B	1	P-1	Aa1	B	n/a	n/a	2yrs	£5m

Counterparty	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin. Stght	S. Term	L. Term	Time	Money
OVERSEAS BANKS											
Sweden	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
Svenska Handelsbanken	F1+	AA-	B	1	P-1	Aa2	C+	A-1+	AA-	2 yrs	£5m
United States	**F1+**	**AAA**				**Aaa**		**A-1+**	**AAA**		
JP Morgan Chase Bank	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	2yrs	£5m

(*) – Where a bank is part of a group then the total exposure to group will be the same as individual exposure

CGS – Counterparty included due to combination of Eligible Institution status and credit ratings.

CGS-IA – Time limit is Instant Access only. Counterparty included due to combination of Eligible Institution status and credit ratings.

Overseas banks can only be used with the express permission of the Director of Resources or Financial Services Manager.

Lending is restricted to an overall limit of no more than 25% of outstanding investments being placed with one individual institution (or group) at any one time.

Treasury Management Clauses to form part of Standing Orders/Financial Regulations/Constitution

1. This Council will create and maintain, as the cornerstones for effective treasury management:

   - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
   - Suitable TMPs, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

2. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.

3. Cabinet has responsibility for the implementation and monitoring of the Council's treasury management policies and practices, and for the execution and administration of treasury management decisions. The Director of Resources will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The organisation nominates Treasury Management Review Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.