Agenda Item No. 8.2

WYRE FOREST DISTRICT COUNCIL

CABINET
16TH NOVEMBER 2010

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Investment Policy and Strategy Statement for the period 1st January 2011 to 31st March 2012

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN AIM:	A Well-Run and Responsive Council
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APPENDICES:	Appendix 1 - MRP Strategy Appendix 2 - Interest Rate Forecasts Appendix 3 - Prudential and Treasury Indicators Appendix 4 - Economic Background Appendix 5 - Specified and Non Specified Investments Appendix 6 - Approved Countries for Investments Appendix 7 - Treasury Management Scheme of Delegation Appendix 8 - The Treasury Management Role of the Section 151 Officer Appendix 9 - Sector Weekly Credit List (Counterparty List as at 22nd October 2010)

1. PURPOSE OF REPORT

1.1 To provide Members with background information on the Chartered Institute of Public Finance (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code).

1.2 To restate for the Prudential Indicators and Limits for the period 1st January 2011 to 31st March 2012 and the financial year 2012/2013 and set out the expected treasury operations for this period. This will be revisited during the Budget process and will be set up to 2014/2015.

1.3 To seek approval for the Council's Treasury Management Strategy Statement for the period 1st January 2011 to 31st March 2012 that sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

1.4 To seek approval for the Council's Investment Policy and Strategy Statement for the period 1st January 2011 to 31st March 2012 that sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

1.5 To seek approval for the Council's Minimum Revenue Provision Statement for the period 1st January 2011 to 31st March 2012 that sets out the Council's criteria for repayment of Prudential Borrowing.

1.6 This proposed strategy has been scrutinised and endorsed by the Treasury Management Review Panel on 3rd November 2010. The Panel is responsible for ensuring effective scrutiny of the treasury management strategy and policies, and made a recommendation to the Corporate Resources Scrutiny Committee on the 11th November 2010. This is in compliance with the revised CIPFA Treasury Management Code of Practice and accordingly Council has already agreed for the Financial Regulations/Constitution to be revised to reflect the new scrutiny requirements.

1.7 To fulfil four key legislative requirements:

- The reporting of the Prudential Indicators as required by the CIPFA Prudential Code;
- The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code;
- The Investment Policy and Strategy Statement (in accordance with Communities and Local Government (CLG) investment guidance);
- The Minimum Revenue Provision (MRP) Policy Statement (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2. <u>RECOMMENDATIONS</u>

That Cabinet RECOMMENDS to Council to:

2.1 Restate the Prudential Indicators and Limits for the period 1st January 2011 to 31st March 2012 and for the financial year 2012/2013.

2.2 Approve the updated Treasury Management and Investment Policy and Strategy Statements for the period 1st January 2011 to 31st March 2012 (including the introduction of the revised Creditworthiness Policy with effect from 1st January 2011 devised by Sector, the Council's Treasury Consultants), the associated Prudential Indicators are included in Appendix 3 and the detailed criteria is included in Section 11 and Appendix 5.

2.3 Approve the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP included in Appendix 1.

2.4 Approve the Authorised Limit Prudential Indictor included in Appendix 3.

2.5 Revisit the Prudential Indicators in February 2011 as part of the Council's approval of the Financial Strategy 2011 to 2015, as the indicators included within this report are based on current recommendations.

2.6 Continue to keep the current Treasury Management Practices (TMP) under review with the assistance of the Council's Treasury Consultants.

3. BACKGROUND

3.1 **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."

3.2 **Statutory Requirements**

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 11 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

3.3 **CIPFA Requirements**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24th February 2010.

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 Council's treasury management activities.

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

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council 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 Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Treasury Management Review Panel who makes recommendations to the Corporate Resources Scrutiny Committee.

3.4 **Treasury Management Strategy for the period 1st January 2011 to 31st March 2012**

The proposed strategy for the period 1st January 2011 to 31st March 2012 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's new treasury adviser, Sector Treasury Services.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

3.5 **Balanced Budget Requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

4. TREASURY LIMITS FOR THE PERIOD 1st JANUARY 2011 to 31st MARCH 2012 AND THE FINANCIAL YEAR 2012/2013

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

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

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

5. CURRENT PORTFOLIO POSITION

5.1 The Council's treasury portfolio position at 30th September 2010 comprised:

Bank	Investment £	Interest Rate %	Date of Investment	Date of Maturity	Type of Investment
Clydesdale Bank	2,830,000	0.50	30/09/2010	01/10/2010	Instant Access
Royal Bank of Scotland	2,985,000	0.85	30/09/2010	01/10/2010	Instant Access
Santander UK	2,000,000	0.80	30/09/2010	01/10/2010	Instant Access
Barclays Bank	2,000,000	1.33	05/11/2009	05/11/2010	12month Fixed
Santander UK	1,000,000	1.41	13/04/2010	13/01/2011	9month Fixed
Lloyds TSB	1,500,000	1.15	10/08/2010	10/11/2010	3month Fixed
Bank of Scotland	1,500,000	1.08	15/09/2010	15/12/2010	3month Fixed
Total	**13,815,000**				

5.2 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. In Iceland, Winding-Up Boards were appointed to oversee the run off of banks, including Landsbanki. This Council had £9m deposited across three of these institutions. Details of the Icelandic Investments as at 30th September 2010 are as follows:

Bank	**Original Investment £**	**Interest Claimed £**	**Total Claim £**	**Total Dividends Received to 30/09/2010 £**	**Balance Outstanding (including Interest Due) £**	**Balance Outstanding (Principal only) £**
Landsbanki	3,000,000	571,711	3,571,711	0	3,571,711	3,000,000
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	2,320,370	2,836,008	2,750,000
Heritable Bank	1,000,000	31,110	1,031,110	425,364	605,746	587,540
Total	**9,000,000**	**759,199**	**9,759,199**	**2,745,734**	**7,013,465**	**6,337,540**

6. BORROWING REQUIREMENT

6.1 The Council's Capital Financing Requirement (CFR), its underlying borrowing requirement, is detailed below. Capital expenditure was approved by Council on 24th February 2010, and the CFR was updated following the closure of the Accounts:

	2009/2010	2010/2011	2011/2012	2012/2013
	Actual	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31st March	1,697	4,528	5,913	6,483

7. PRUDENTIAL AND TREASURY INDICATORS FOR THE PERIOD 1st JANUARY 2011 to 31st MARCH 2012 AND THE FINANCIAL YEAR 2012/2013

7.1 Prudential and Treasury Indicators (as set out in Appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

7.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 27th February 2003 C90 (10), and as a result adopted a Treasury Management Policy Statement (Executive 13th February 2003 ED.223). The November 2009 revision of the Code was adopted by Council on 24th February 2010.

7.3 Within the Budget Report to Council in February 2011, revised Prudential Indicators to 2014/2015 will be presented for approval.

8. PROSPECTS FOR INTEREST RATES

8.1 The Council appointed Sector Treasury Services as treasury advisors to the Council with effect from 1st September 2010 and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector Bank Rate forecast:

Sector Bank Rate forecast for financial year ends (March)

- 2010/ 2011 0.50%
- 2011/ 2012 1.25%
- 2012/ 2013 3.00%

8.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within Appendix 4 to this report.

9. BORROWING STRATEGY

9.1 The Council currently has no external borrowing with the Public Works Loan Board (PWLB) or other market lenders. The underlying borrowing requirement (Capital Financing Requirement – CFR) has been met using internal borrowing. This may change in the near future since the funds available for investment will reduce as Council spending on significant capital schemes increases.

9.2 **Borrowing Rates**

The Sector forecast for the PWLB new borrowing rate is as follows: -

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.50%	3.00%	3.25%	3.25%
5yr PWLB Rate	3.05%	3.05%	3.25%	3.45%	3.65%	3.85%	4.15%	4.45%	4.65%	4.95%	5.25%	5.25%
10yr PWLB Rate	4.15%	4.15%	4.25%	4.55%	4.75%	4.85%	5.15%	5.25%	5.45%	5.45%	5.75%	5.75%
25yr PWLB Rate	5.05%	5.15%	5.15%	5.25%	5.35%	5.55%	5.55%	5.65%	5.85%	5.85%	5.85%	5.85%
50yr PWLB Rate	4.95%	5.05%	5.05%	5.15%	5.25%	5.45%	5.45%	5.55%	5.75%	5.75%	5.75%	5.75%

A more detailed Sector forecast is included in Appendix 2.

9.3 In view of the above forecast the Council's borrowing strategy will be to consider all suitable options and take advantage of the most attractive rates available, both from the PWLB and from the Market, as and when required.

9.4 **Sensitivity of the forecast**

In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it were felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then any projected long term borrowings will be postponed.

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

9.5 **External versus Internal Borrowing**

Comparison of gross and	**2009/2010**	**2010/2011**	**2011/2012**	**2012/2013**
Net debt positions at year	**Actual**	**Estimate**	**Estimate**	**Estimate**
End	**£'000**	**£'000**	**£'000**	**£'000**
Actual external debt (gross)	35	1,368	2,836	3,281
Cash balances	(13,089)	(14,500)	(6,000)	(5,000)
Net debt	(13,054)	(13,132)	(3,164)	(1,719)

- The next financial year is expected to continue to be one of historically abnormally low Bank Rate. This provides an opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

- Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure (this is referred to as internal borrowing). This would maximise short term savings.

- However, short term savings by avoiding new long term external borrowing in 2011/12 must also be weighed against the potential for incurring additional long term extra costs caused by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

- Due to the progression of the medium term finance strategy the use of internal borrowing can no longer be sustained and it is highly probable that the underlying need to borrowing will be met from external sources.

Against this background caution will be adopted with the 2011/2012 treasury operations. The Director of Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

9.6 **Policy On Borrowing In Advance Of Need**

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

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them

10. DEBT RESCHEDULING

10.1 Although the Council is currently debt-free and therefore this may not be immediately required, the Council is forecast to require to borrow in the next financial year. A Policy in respect of this issue is therefore required.

10.2 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, has meant that PWLB debt restructuring is now much less attractive than it was before then. However, significant interest savings may still be achievable through using LOBO (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises.

10.3 Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

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

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil the strategy outlined in paragraph 7 above, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

10.5 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

11. ANNUAL INVESTMENT STRATEGY

11.1 Investment Policy

The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

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

11.2 Creditworthiness Policy

The Council currently uses the Lowest Common Denominator approach in determining creditworthiness. However, following the appointment of the Council's new Treasury Advisors, Sector, it is proposed that the Creditworthiness Policy is amended with effect from 1st January 2011 to reflect the revised approach devised and recommended by Sector.

Sector advise that their service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Director of Resources is satisfied that this service will continue to provide a high level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:

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

This Council will therefore supplement the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties with Sector's creditworthiness approach as Moodys tend to be more aggressive in giving low ratings than the other two agencies. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

The financial institutions, on the resultant Counterparty list detailed in Appendix 9, is not dissimilar to the previous list. However, the duration of the investments for some financial institutions is revised.

All credit ratings will be monitored on a weekly basis as a minimum requirement. The Council is immediately alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support; Sector will supply this information to the Treasury team as part of their comprehensive service.

11.3 **Country Limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in appendix 6. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

In addition to the minimum sovereign credit rating, no more than 25% will be placed with any individual non-UK country at any time.

11.4 **Investment Strategy**

In-house funds: The Council's in-house managed funds are mainly cash-flow derived. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Interest rate outlook: Bank Rate has been unchanged at 0.50% since March 2009. It is forecast to commence rising in quarter 3 of 2011 and then to rise steadily from thereon. Sector forecast the Bank Rate for financial year ends (March) as follows:

- 2010/2011 0.50%
- 2011/2012 1.25%
- 2012/2013 3.00%

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

For its cash flow generated balances, the Council will seek to utilise its instant access/call accounts, business reserve accounts, 15 and 30 day accounts, money market funds, money market instruments (such as gilts and Treasury Bills) and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

11.5 **End of Year Investment Report**

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

11.6 **External Fund Managers**

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 is 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 Contracts, if applicable.

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by the cash fund manager(s) are as follows: -

	Fitch	Moodys	Standard and Poors
Long Term	A	A2	A
Short Term	F1	P-1	A-1
Individual/Financial Strength	B or C	C	N/A
Support	2	N/A	N/A

(The combination of Fitch ratings above is either B2 or C2)

12. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

12.1 The Council now uses Sector Treasury Services as its external treasury management advisers. They were appointed following a competitive tendering process for a period of three years, following which there is an option to extend for a further two years.

12.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and the Director of Resources will ensure that statutory Section 151 responsibilities continue to be met, in close liaison with, but without undue reliance, upon our external service providers.

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

13. SCHEME OF DELEGATION

13.1 The Council's Treasury Management Scheme of Delegation is detailed in Appendix 7.

14. ROLE OF THE SECTION 151 OFFICER

14.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 8.

15. MEMBER AND OFFICER TRAINING

15.1 The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Annual Portfolio holder training from Director of Resources and Treasury Consultants;
- Treasury Management Review Panel annual training updates (with additional updates as necessary);
- Quarterly Treasury Update Reports to Members;
- Daily Officer monitoring of Treasury and Money Market information by Treasury Officers;
- Regular attendance by Officers at professional Seminars provided by Treasury Consultants, CIPFA and CLG:
- Association of Corporate Treasurers Certificate in International Treasury Management – Public Finance qualification currently being undertaken by a Senior Officer

16. LOCAL ISSUES

16.1 The most significant issue to affect the Council relates to the exposure of investments with links to Icelandic Banks. In reacting to this situation the Council established the Treasury Management Review Panel which examined the circumstances leading up to the placing of the particular investments and continues to make recommendations in relation to the Council's lending lists.

16.2 During the next year the funds available for investment will reduce as the Council progresses on its Transformation Agenda in areas such as the development of Single Site, the completion of the implementation of the ICT Strategy and the provision (in partnership) of a new cemetery and crematorium. Each of the schemes above are being pursued to ensure that the Council can reduce the on-going cost of delivering services.

16.3 Over the coming years the Council is also scheduled to make disposals of assets, however, careful consideration will be made on each opportunity to ensure that the Council sells at a time that maximises the return to the authority.

17. KEY ISSUES

17.1 The Key Issues are contained within sections 4 to 16 of this report, however, there have been a number of changes this year, the most significant are as follows:

- Consideration of further measures of credit quality to apply to counterparties other than the internationally recognised Credit Rating Agencies;

- The commencement of a new contract for Treasury Management Services with Sector;
- Following the Government Comprehensive Spending Review on 20th October 2010, PWLB rates increased with immediate effect by 1%. This could have a significant impact on the Financial Strategy and alternative sources of external borrowing will be investigated

17.2 As reported previously, the returns that the Council is currently receiving from investment returns remain significantly lower than those achieved during years up to 2007/08. Although we are forecasting increases in interest rates later this year, increases are expected to be modest and implemented over a long period. Section 8 of this report identifies the on-going sensitivity that the Council faces in relation to investment returns.

18. FINANCIAL IMPLICATIONS

18.1 The Financial Implications of the Treasury Management function are included in the Council's Medium Term Financial Strategy and Four Year Budget and Policy Framework.

19. LEGAL AND POLICY IMPLICATIONS

19.1 The Local Government Act 2003 supplemented by Regulations set out a new framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.

19.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.

20. RISK MANAGEMENT

20.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of Sector, the Council's current Treasury Advisors and Butlers, the Council's Treasury Advisors to 31st August 2010, the Council has proactively managed the portfolio over the year.

20.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.

21. EQUALITY IMPACT ASSESSMENT

21.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

22. CONCLUSION

22.1 See Recommendations.

23. CONSULTEES

23.1 Sector Treasury Services.
23.2 Cabinet.
23.3 Leader of the Council.
23.4 Corporate Management Team.
23.5 Treasury Management Review Panel.

24. BACKGROUND PAPERS

24.1 Local Government Act 2003

24.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2009

24.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2009

24.4 Local Government and Housing Act 1989

24.5 Cabinet Report 16/11/2010– Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2010/2011

24.6 Council 24/02/10 – The Prudential System of Local Government Finance and the Treasury Management Policy and Strategy Report 2010/2011

25.7 Cabinet Report 21/09/2010 – Annual Report on Treasury Management Service and Actual Prudential Indicators 2009/2010

APPENDIX 1 MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision – an introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments,
b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement for the period 1st January 2011 to 31st March 2012

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess MRP for the period 1st January 2011 to 31st March 2012 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Capital expenditure reflected within the debt liability at 31st March 2010 will, under delegated powers, be subject to MRP under option 3 which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

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

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

In summary, continuation with current approved MRP Policy is recommended.

APPENDIX 2 INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector

Interest rate forecast at 28th October 2010

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.50%	3.00%	3.25%	3.25%
5yr PWLB Rate	3.05%	3.05%	3.25%	3.45%	3.65%	3.85%	4.15%	4.45%	4.65%	4.95%	5.25%	5.25%
10yr PWLB Rate	4.15%	4.15%	4.25%	4.55%	4.75%	4.85%	5.15%	5.25%	5.45%	5.45%	5.75%	5.75%
25yr PWLB Rate	5.05%	5.15%	5.15%	5.25%	5.35%	5.55%	5.55%	5.65%	5.85%	5.85%	5.85%	5.85%
50yr PWLB Rate	4.95%	5.05%	5.05%	5.15%	5.25%	5.45%	5.45%	5.55%	5.75%	5.75%	5.75%	5.75%

Capital Economics

Interest rate forecast at 28th October 2010

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
10yr PWLB Rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
25yr PWLB Rate	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
50yr PWLB Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

UBS

Interest rate forecast (for quarter ends) at 28th October 2010

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate View	0.50%	0.50%	0.50%	0.75%	1.00%
10yr PWLB Rate	4.00%	4.10%	4.30%	4.50%	4.60%
25yr PWLB Rate	5.10%	5.10%	5.10%	5.20%	5.30%
50yr PWLB Rate	5.10%	5.20%	5.20%	5.30%	5.40%

2. Survey of Economic Forecasts

HM Treasury September 2010

The current Q4 2010 and 2011 forecasts are based on the September 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in May 2010.

BANK RATE FORECASTS	Bank Rate	Quarter end		Annual ave. Bank Rate				
	actual	Q4 2010	Q4 2011	ave. 2010	ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	0.50%	1.30%	0.60%	1.40%	2.60%	3.50%	3.80%
Highest	0.50%	1.20%	3.20%	0.90%	2.80%	4.20%	4.60%	4.90%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.70%	2.00%	1.80%

APPENDIX 3 PRUDENTIAL AND TREASURY INDICATORS

TABLE 3: PRUDENTIAL INDICATORS	**2009/2010**	**2010/2011**	**2011/2012**	**2012/2013**
Extract from budget report	**Actual**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	6,147	10,991	9,370	1,801
Ratio of financing costs to net revenue stream	1.80%	2.19%	3.19%	4.77%
Net borrowing requirement				
brought forward 1 April	(18,090)	(13,010)	(13,132)	(3,164)
carried forward 31 March	(13,010)	(13,132)	(3,164)	(1,719)
in year borrowing requirement	0	0	0	0
Capital Financing Requirement as at 31 March	1,697	4,528	5,913	6,483
Annual change in Capital Financing Requirement	(132)	2,831	1,385	570
Incremental impact of capital investment decisions		**£**	**£**	**£**
Increase in council tax (band D) per annum		0.26	(2.73)	(3.50)

TABLE 4: TREASURY MANAGEMENT INDICATORS	2009/2010	2010/2011	2011/2012	2012/2013
	Actual	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
Borrowing	5,000	6,000	9,000	10,000
Other long term liabilities	0	0	0	0
TOTAL	5,000	6,000	9,000	10,000
Operational Boundary for external debt -				
Borrowing	2,500	800	2,000	5,000
Other long term liabilities	0	0	0	0
TOTAL	2,500	800	2,000	5,000
External debt	35	1,368	2,836	3,281
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments		100%	100%	100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments		100%	100%	100%
Upper limit for total principal sums invested for over 364 days		£7m	£4m	£2m
(per maturity date)				

TABLE 5: Maturity structure of fixed rate borrowing during 2010/11	Upper limit	Lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 4 ECONOMIC BACKGROUND

Economic Background

4.1 Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May.

The unexpectedly high rate of growth in quarter 2 of 2010 in the UK and the Euro zone was a one off particularly driven by strong growth in the construction sector catching up from inclement weather earlier in the year; general expectations are for anaemic (but not negative) growth next year in the western world.

4.2 UK economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices have started on a negative trend during the summer of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget responsibility are forecasting much stronger growth than most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and has gradually declined to 3.1% in September (RPI 4.6%). Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, there is currently major expectation that there could be a second round of quantitative easing in late 2010 or early 2011 to help support economic growth.

Sector's view is that there is unlikely to be any increase in Bank Rate until the middle of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and PWLB rates. If there is a second round of QE, this is likely to put further downward pressure on gilt yields and so on PWLB rates, or at the least, prolong the period they stay at these low levels.

4.3 Sector's forward view

It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in the US and EU
- the degree to which government austerity programmes will dampen economic growth
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- changes in the consumer savings ratio
- the potential for more quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

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

APPENDIX 5 SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

The Council has determined to authorise Specified Investments as follows:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
The Councils Own Bank	End of day balance £1m	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies	Green	In-house
Money Market Funds and Financial Instruments	Green	In-house

	Minimum Credit Criteria	Use	Max % of total investments*	Max. maturity period
UK nationalised banks	Blue	In-house	**25%**	**Up to 12 months**
Banks nationalised by high credit rated (sovereign rating) countries – non UK	Green	In-house and Fund Managers	**25%**	**Up to 12 months**
Government guarantee (explicit) on ALL deposits by high credit rated (AAA sovereign rating) countries**	Green	In-house and Fund Managers	**25%**	**Up to 12 months**
UK Government support to the banking sector (implicit guarantee) ***	Green	In-house	**25%**	**Up to 12 months**

* 25% maximum limit is per Counterparty, where a Counterparty 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.

** e.g. Singapore (AAA); specified list of countries approved for investing with their banks detailed in Appendix 6

*** The original list of banks covered when the support package was initially announced was:

- Abbey (now part of Santander)
- Barclays
- HBOS (now part of the Lloyds Group)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

Additional Information on Specified Investments as Detailed Above

Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible. Current examples include Lloyds Banking Group and Royal Bank of Scotland Group.

Blanket (explicit) guarantees on all deposits. Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee. The Council will only consider investments with AAA rated countries.

UK Government explicit guarantee on specific debt issues (e.g. certificates of deposits, bonds etc) by banks covered by the banking system support package. The Council will decide if they wish to authorise investing in such instruments on the basis of that explicit guarantee using the UK sovereign rating or on the ratings of the bank.

UK banking system support package (implicit guarantee). Please note that the UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package.

Other countries. The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems. The Council will only consider investments with AAA rated countries.

Councils Own Bank. Where the Council's own bankers fail to meet the basic credit criteria, balances will be minimised as far as possible with an upper limit of £1m. This allows for reasonable flexibility needed for day to day cash flow management.

NON-SPECIFIED INVESTMENTS:

The Council has determined to authorise Non-Specified Investments as follows:

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Green	In-house	25%	24 months
Treasury Bills	UK sovereign rating	In-house and Fund Managers	25%	6 months

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	Max % of total Investments*	Max. maturity period
Term deposits – local authorities	-	In-house	25%	24 months
Term deposits – banks and building societies	Green	In-house	25%	24 months
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house	25%	24 months
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	Green	In-house	25%	24 months
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	Green	In-house	25%	24 months
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	25%	24 months

* 25% maximum limit is per Counterparty, where a Counterparty 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.

For 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 ensure that security of capital remains the paramount consideration. 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. This is also applicable to the approved countries detailed in Appendix 6.

APPENDIX 6 APPROVED COUNTRIES FOR INVESTMENTS

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by officers should ratings change in accordance with this policy.

In addition to the minimum sovereign credit rating, no more than 25% will be placed with any individual non-UK country at any time.

APPENDIX 7 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.

(ii) Committees/Council/responsible body – Cabinet, with recommendations from the Treasury Management Review Panel as appropriate

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny – Cabinet, with recommendations from the Treasury Management Review Panel as appropriate

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 8 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- recommending the appointment of external service providers.