Appendix B

Treasury Management Strategy Report 2008/09

Recommendations

This report outlines the Council's prudential indicators for 2008/09 – 2010/11 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix A);
- The treasury strategy in accordance with the CIPFA Code of Practice on Treasury Management (Appendix B);
- The investment strategy (in accordance with the DCLG investment guidance) (Appendix C).

A summary report outlines the key requirements from these reports.

The Council is recommended to:

1. **Adopt the Prudential Indicators and Limits for 2008/09 to 2010/11 contained within Annex A of the report.**
2. **Approve the Minimum Revenue Provision (MRP) Statement contained within Annex A which sets out Council's policy on MRP.**
3. **Approve the Treasury Management Strategy 2008/09, and the treasury Prudential Indicators contained within Annex B.**
4. **Approve the Investment Strategy 2008/09 contained in the treasury management strategy (Annex B), and the detailed criteria included in Annex B1.**

Executive Summary

Capital Expenditure - The projected capital expenditure is expected to be:

Capital expenditure £m	2007/08 Revised £'000	2008/09 Estimated £'000	2009/10 Estimated £'000	2010/11 Estimated £'000
Non HRA	4,900	3,275	3,375	5,365
HRA	5,772	7,239	6,096	4,912
Total	10,672	10,514	9,471	10,277

Debt Requirement - Part of the capital expenditure programme will be financed directly (through Government Grants, capital receipts etc.), leaving a residue which will increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt (there is no requirement for an HRA charge).

Capital Financing Requirement £m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Non HRA	5,125	4,898	4,680	7,192
HRA	2,159	2,159	2,159	2,159
Total	7,284	7,057	6,839	9,351

Against this borrowing need (the CFR), the Council's expected external debt position for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are:

£m	**2007/08 Revised**	**2008/09 Estimated**	**2009/10 Estimated**	**2010/11 Estimated**
Authorised limit	18,000	18,000	18,000	20,000
Operational boundary	9,000	9,000	9,000	11,000

The impact of the new schemes being approved as part of this budgetary cycle on Council Tax and housing rents are expected to be (this reflects a revised position on the financing of the capital programme which assumes borrowing will not now be due until 2010/11) on :

Incremental impact of capital investment decisions (£) on:	**2007/08 Revised**	**2008/09 Estimated**	**2009/10 Estimated**	**2010/11 Estimated**
Band D Council Tax	0.00	(2.67)	(2.56)	1.13
Housing rents levels	0.00	0.00	0.00	0.00

Investments – The resources applied to finance the capital spend above is one of the elements which influence the overall resources of the Council. The expected position of Council's year end resources (balances, capital receipts, etc.), is shown below supplemented with the expected cash flow position to provide an overall estimate of the year end investment position. The prudential indicator limiting longer term investments is also shown.

£m	**2007/08 Revised**	**2008/09 Estimated**	**2009/10 Estimated**	**2010/11 Estimated**
Total resources	**23,811**	**21,228**	**16,470**	**13,445**
Working Capital	(1,560)	(1,560)	(1,560)	(1,560)
Total Investments	**22,251**	**19,668**	**14,910**	**11,882**
Principal sums invested > 364 days		£12m	£8m	£5m

Appendix B - Annex A

The Prudential Indicators 2007/08 – 2010/11

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2007/08, 2008/09 and 2009/10, and introduces new indicators for 2010/11. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2008/09 is included as Annex B to complement the indicators, and this report includes the prudential indicators relating to the treasury activity.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if these resources are insufficient any residual expenditure will form a borrowing need.
4. A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.
5. The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.
6. The Council is asked to approve the summary capital expenditure projections below, service details are at Annex A1. This forms the first prudential indicator:

£m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Capital Expenditure				
Non-HRA	4,900	3,275	3,375	5,365
HRA	5,772	7,239	6,096	4,912
Financed by:				
Capital receipts	1,353	2,599	3,216	2,733
Capital grants	878	523	213	213
Capital reserves	8,021	7,239	5,355	3,810
Revenue	420	153	687	686
Net financing need for the year	**0**	**0**	**0**	**2,835**

The Council's Borrowing Need (the Capital Financing Requirement)

7. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital

resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

8. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

9. Draft CLG Regulations are currently issued for comment which, if implemented, will require full Council to approve **an MRP Statement**. This will need to be approved in advance of each year. Whilst the regulations will revoke current MRP requirements, councils are allowed to continue historical accounting practice. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The timetable for implementation is very tight and so Members are asked to approve the following policy, based on the draft Regulations. Should the final regulations change this Statement, it will be re-submitted for approval.

10. The Council is recommended to approve the following MRP Statement:

11. For capital expenditure incurred before 1 April 2008 or which in the future will Supported capital Expenditure, the MRP policy will be:

    - **Existing practice** - MRP will follow the existing practice outline in former CLG Regulations.

12. From 1 April 2008 for all unsupported borrowing the MRP policy will be:

    - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive).

13. The Council is asked to approve the CFR projections below:

£m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Capital Financing Requirement				
CFR – Non Housing	5,125	4,898	4,680	7,192
CFR - Housing	2,159	2,159	2,159	2,159
Total CFR	7,284	7,057	6,839	9,351
Movement in CFR	**(236)**	**(227)**	**(218)**	**2,512**

Movement in CFR represented by				
Net financing need for the year (above)	-	-	-	2,835
MRP/VRP and other financing movements	(236)	(227)	(218)	(323)
Movement in CFR	**(236)**	**(227)**	**(218)**	**2,512**

The Use of the Council's resources and the Investment Position

14. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Fund balances	5,660	5,573	5571	5,554
Capital receipts	4,075	4,925	2,462	500
HRA reserve	8,728	9,059	8,437	7,391
Major Repairs Reserve	5,348	1,671	0	0
Total Core Funds	**23,811**	**21,228**	**16,470**	**13,445**
Working Capital*	(1,560)	(1,560)	(1,560)	(1,560)
Expected Investments	**22,251**	**19,668**	**14,910**	**11,882**

* Working capital balances shown are estimated year end; these may be higher mid year

Limits to Borrowing Activity

15. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

16. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2008/09 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

£m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Gross Borrowing	(4,000)	(4,000)	(4,000)	(5,335)
Investments	22,251	19,668	14,910	11,882
Net Borrowing	18,251	15,668	10,910	5,886
CFR	7,284	7,057	6,839	9,351

17. The Corporate Head of Finance and Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

18. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

19. **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

20. **The Operational Boundary for External Debt** –This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

21. The Council is asked to approve the following Authorised Limit and Operational Boundary:

Authorised limit £m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Borrowing	18,000	18,000	18,000	20,000
Other long term liabilities	-	-	-	-
Total	18,000	18,000	18,000	20,000
Operational Boundary £m	**2007/08 Revised**	**2008/09 Estimated**	**2009/10 Estimated**	**2010/11 Estimated**
Borrowing	9,000	9,000	9,000	11,000
Other long term liabilities	-	-	-	-
Total	9,000	9,000	9,000	11,000

Affordability Prudential Indicators

22. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

23. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Non-HRA	(4.51)%	(2.31)%	(1.77)%	(0.41)%
HRA	(4.23)%	(2.42)%	(1.39)%	(0.76)%

24. The estimates of financing costs include current commitments and the proposals in this budget report.

25. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with ***new schemes*** introduced to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

26. **Incremental impact of capital investment decisions on the Band D Council Tax**

£	Proposed Budget 2008/09	Forward Projection 2009/10	Forward Projection 2010/11
Council Tax - Band D	(2.67)	(2.56)	1.13

27. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital

programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

28. **Incremental impact of capital investment decisions Housing Rent levels**

£	Proposed Budget 2008/09	Forward Projection 2009/10	Forward Projection 2010/11
Weekly Housing Rent levels	0.00	0.00	0.00

29. This indicator shows the revenue impact on any newly approved schemes, although any discrete impact will be constrained by rent controls.

Appendix B - Annex B

Treasury Management Strategy 2008/09 – 2010/11

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex A consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.
2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 23 June 2004, and as a result adopted a Treasury Management Policy Statement. This adoption meets the requirements of the first of the treasury prudential indicators.
3. The Constitution requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.
4. This strategy covers:
   - The Council's debt and investment projections;
   - The expected movement in interest rates;
   - The Council's borrowing and investment strategies;
   - Treasury performance indicators; and
   - Specific limits on treasury activities.

Debt and Investment Projections 2008/09 – 2010/11

5. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

£m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
External Debt				
Debt at 1 April	(4,500)	(4,000)	(4,000)	(4,000)
Expected change in debt	500	-	-	(1,335)
Debt at 31 March	(4,000)	(4,000)	(4,000)	(5,335)
Operational Boundary	9,000	9,000	9,000	11,000
Investments				
Total Investments at 31 March	22,251	19,668	14,910	11,882
Investment change	(5,752)	(2,583)	(4,758)	(3,028)

6. The related impact of the above movements on the revenue budget are:

£m	2007/08 Revised	2008/09 Estimated	2009/10 Estimated	2010/11 Estimated
Revenue Budgets				
Interest on Borrowing	427	406	406	543
Related HRA Charge	(166)	(158)	(158)	(211)
Net General Fund Borrowing Cost	261	248	248	332
Investment income	(1,986)	(1,335)	(1,018)	(797)

Expected Movement in Interest Rates

Medium-Term Rate Forecasts (averages – Source Butlers)

	Bank Rate	1-year LIBOR	5-year Gilt	20-yr Gilt	50-yr Gilt
2006/07	4.8	5.3	4.9	4.4	4.0
2007/08	5.6	6.0	5.3	4.9	4.5
2008/09	5.2	4.9	4.9	4.7	4.6
2009/10	4.9	4.9	4.8	4.7	4.6
2010/11	5.0	5.3	4.9	4.8	4.8
2011/12	5.2	5.5	5.3	5.2	5.1

*PWLB borrowing is normally between 0.10% - 0.15% above the equivalent gilt yield

7. **Short Term Interest Rates** - The summer's dip in inflation drew to a close in October and the latest Bank of England Inflation Report suggests this key aggregate will rise further in the months ahead before returning to the 2% mid-target level by early 2009.

8. The end to aggressive discounting on the High Street, the rise in oil and petrol prices, and the upward trend in food costs have contributed to the rebound in inflation. While domestically-generated inflation will remain heavily influenced by the strength of economic activity and the growth in consumer spending, external factors are likely to be under upward pressure for the foreseeable future.

9. The main restraining influence in the UK will be the prospective decline in economic activity. Recent developments in the financial markets threaten to make the slow-down more pronounced than forecast earlier. The deceleration in economic activity in the US is expected to spread to the Euro-zone and this will undermine the chances of continued export-driven growth. On the domestic front, the effect of interest rate increases upon consumer activity and confidence is set to emerge more strongly in the New Year.

10. Higher rates, concern about the stability of asset prices (notably housing where prices are faltering) and news of weakening activity are all likely to undermine consumer confidence. This would weaken further if the problems of the financial markets were to worsen.

11. Lower activity is set to emerge in the months ahead. This, together with signs of a pronounced slow-down in personal spending will be seen as providing scope for the MPC to relax its current, tight monetary stance. But uncertainty about the path of activity and prices over the medium term suggests the authorities will tread a cautious path and will confine interest rate cuts to a relatively small number.

12. **Long-term interest rates** - have been driven lower by the strong demand for safe haven instruments at a time of crisis in the banking industry. Yields were

driven down to levels that were hard to justify purely on economic grounds. While they have subsequently rebounded, they are still below levels that can be called attractive on fundamental grounds.

13. The crisis in the financial markets is set to continue for a while longer. More banks are likely to announce large losses in business linked with asset-backed securities. This will promote persistent nervousness and ensure demand for safe haven instruments, notably government securities (gilts), remains strong. Yields are set to remain volatile in this environment and there may be times when they are driven down to levels not justified by fundamental economic analysis.

14. The longer term outlook is not as favourable. The US Federal Reserve's aggressive cuts in interest rates since mid-September were driven by reaction to a combination of factors, including the weakening of economic activity, some improvement in inflation performance and the crisis in the US property market. But the move was seen as heavy handed and a threat to the long-term outlook for inflation. The US economy continues to post a mixed performance and inflation is only just below the ceiling the central bank considers acceptable.

Borrowing Strategy 2008/09 – 2010/11

15. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

16. Long-term fixed interest rates are expected to be higher over the medium term. The Corporate Head of Finance and Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that longer term fixed rates will be considered earlier if borrowing rates deteriorate.

17. With the likelihood of increasing interest rates debt restructuring is likely to take place later in the financial year or in future years, although the Corporate Head of Finance and Resources and treasury consultants will monitor prevailing rates for any opportunities during the year.

18. A key change in the options for borrowing and rescheduling occurred on 1 November 2007 when the PWLB changed its interest rate structure to a more sensitive pricing method and also increased the relative cost of repaying debt. This will prompt a more cautionary approach to both borrowing and rescheduling.

Investment Counterparty and Liquidity Framework

19. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

20. The Corporate Head of Finance and Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the Council will choose rather than defining what its investments are. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits.

- **Banks** – the Council will use only English and Scottish Clearing Banks and their subsidiaries. However, the Council's treasury management advisors have proposed that a review is undertaken concerning the bank listing for this Authority. For overseas, the Council will only use banks with a F1+ rating for short term and AA rating for long term.
- **Building Societies** – the Council will only use the top 30 listed Building Societies.
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

19. The proposed criteria for Specified and Non-Specified investments are shown in Annex B1 for approval.

20. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

21. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator below.

Investment Strategy 2008/09 – 2010/11

22. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 5.75% Bank Rate being the peak with the next fall in early 2008. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise, subject to over riding credit counterparty security. The Corporate Head of Finance and Resources, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

Sensitivity to Interest Rate Movements

23. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury

management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£m	2008/09 Estimated + 1%	2008/09 Estimated - 1%
Revenue Budgets		
Interest on Borrowing	406	406
Related HRA Charge	(158)	(158)
Net General Fund Borrowing Cost	248	248
Investment income	(1,348)	(1,322)

Treasury Management Prudential Indicators and Limits on Activity

24. There are four further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

25. The Council is asked to approve the following prudential indicators:

£m	2008/09	2009/10	2010/11
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	7,000	7,000	9,500
Limits on variable interest rates based on net debt	2,000	2,000	3,000
Limits on fixed interest rates:			
• ***Debt only***	*100%*	*100%*	*100%*
• ***Investments only***	*100%*	*100%*	*100%*
Limits on variable interest rates			
• ***Debt only***	*30%*	*30%*	*30%*
• ***Investments only***	*30%*	*30%*	*30%*

Maturity Structure of fixed interest rate borrowing 2008/09			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	50%
5 years to 10 years		0%	75%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£12m	£8m	£5m

Performance Indicators

26. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate
- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

The results of these indicators will be reported in the Treasury Annual Report for 2007/08.

Appendix B - Annex C

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

The Office of the Deputy Prime Minister (now CLG) 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 has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Corporate Head of Finance and Resources 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.

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. The Council's Loan Officer is restricted to placing funds with:

1. The NatWest Bank (the Council's Bank) either via their Deposit Dealing desk or a Special Interest Bearing Account (SIBA);
2. The Alliance and Leicester Bank;
3. HBOS Bank;
4. The Principality Building Society;

Amounts invested with any one institution shall not exceed £7m for periods of more than one month.

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 (£ or %)
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	N/A
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	N/A
c.	**Building societies not meeting the basic security requirements under the specified investments**. The Council will include the top 30 building societies.	25%
d.	Any **bank or building society** that has a minimum long term credit rating of AAfor deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	25%
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category.	N/A
f.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	N/A

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 and as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. 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 Corporate Head of Finance and Resources, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. Currently the Council has an agreement with Tradition UK and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Investments made with local authorities, the top 30 building societies, English and Scottish clearing banks (and their subsidiaries) and overseas banks. The placing of funds with overseas banks is restricted to institutions with a credit rating of F1+ (short term loans) and AA rating (long term loans);
- Amounts invested with anyone institution or group should not exceed 25% of the fund value or a maximum of £7m for periods of more than one month;
- Investments for periods exceeding 364days limited to 25% of fund held;
- Forward commitment investments limited to 25% of fund held; and
- Portfolio management is measured against the return provided by the 3 month sterling LIBID.

The performance of each manager is reviewed at least quarterly by the Corporate Head of Finance and Resources.