CABINET

18th March 2010

Report of the Chief Executive

ITEM 8 **Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2010-11**

Purpose of the Report

This report sets out the revised Treasury Management Strategy Statement reflecting the Revised CIPFA Treasury Management Code of Practice 2009 for recommendation to Council as well as the Annual Minimum Revenue Provision strategy and the Annual Investment Strategy. In addition, it includes recommendations to Council to amend the Council's Financial Regulations in order to reflect current practice on Treasury matters.

Recommendations

That it be recommended to Council to:

1. Approve the Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy as shown in Appendix A.
2. Approve the Prudential Indictors set out in Tables 3, 4 and 5 of Appendix 3 of Appendix A.
3. To amend the Council's Financial Regulations to include the following clauses:

   A. The Council will create and maintain, as the cornerstones for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
   - the content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the CIPFA Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the Council materially deviating from the Code's key principles.

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

   C. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Chief Financial Officer (S.151 Officer), who will act in accordance with the Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

D. The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Reasons

1. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.
2. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.
3. To ensure that the Council's Financial Regulations comply with the CIPFA Treasury Management Code of Practice 2009.

Policy Context

The adoption of these policies, indicators and amendments to the Financial Regulations will help the Council to become a Better Council and aid Financial Stability.

Background

The Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy must be approved by Council each year. These are all set out in the attached report as Appendix A.

In addition, the Chartered Institute of Public Finance and Accountancy (CIPFA) has amended its Treasury Management in the Public Services Code of practice and the key areas are set out in the attached report. Primarily, these changes seek to clearly set out the responsibilities for the various parts of the Treasury Strategy and functions and also aim to ensure that the emphasis for the investment of the council's funds is on security and liquidity with the requirement to obtain value for money being secondary.

The Treasury Management and Annual Investment Strategy have been prepared in accordance with the revised code and accordingly include:

- the treasury limits in force which will limit the treasury risk and activities of the council,
- the 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,
- the use of external fund managers and treasury advisers,
- Minimum Revenue Provision (MRP) strategy.

A summary of some of the key elements requiring approval and as included in Appendix A are as follows:

- Treasury Management Strategy Statement and Annual Investment Strategy.
- The adoption of the Treasury Management Code of Practice (Appendix 8 of Appendix A)
- Annual Statement of the Minimum Revenue Provision (Appendix 1 of Appendix A)

It should be noted that the Council does not currently require a Minimum Revenue Provision but if one were required in the future then this would become a charge to the General Fund account. This is why any such MRP must be sustainable and manageable within the Council's expected income.

Financial Implications

There are no direct financial implications arising from this report.

Risk Assessment

Risk Identified	Likelihood	Impact	Risk Management Actions Planned
Poor investment decisions due to no strategy in place	Low	High	Approved strategy in accordance with CIPFA guidelines and best practice
Loss of council funds through failure of borrowers	Low	High	Credit ratings and other sources used to minimise risks
Market changes rapidly during year	Medium	Medium	Although strategy in place, important to monitor position and use Treasury Consultants and other sources to provide latest advice.
Failure to take effects of Capital Expenditure when approved into the budgetary process.	Low	High	Robust procedures to approve Capital Plan after all effects have been considered and evaluated by officers and members.
Exposure to interest rates moving adversely without notice	Low	Medium	Treasury Consultants engaged to advise of changing interest rate scenarios affecting the Council.

Officer to contact: John Casey (01509) 634810
John.casey@charnwood.gov.uk

Scrutiny Committees: Audit Committee and Performance Scrutiny Committee

Background Papers: Local Government Act 2003
Prudential Code for Capital Finance in Local Authorities

CIPFA Code for Treasury Management in the Public Services and Cross –Sectorial Guidance Notes

Key Decision: Yes

APPENDIX A

Treasury Management Strategy Statement, MRP Strategy and Annual Investment Strategy 2010/11

1. Introduction

1.1 The Revised CIPFA Treasury Management Code of Practice 2009

In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes and the template for the revised Treasury Management Policy Statement. It is also a requirement of the Code that this Council should formally adopt the Code. As the Code has been revised, the covering report includes a recommendation for the Council to adopt the revised Code and the revised Treasury Management Policy Statement.

The revised Code has emphasised a number of key areas including the following: -

a) All councils must formally adopt the revised Code and four clauses
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports MUST be approved by full council.
i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
k) Treasury management performance and policy setting should be subjected to prior scrutiny.
l) Members should be provided with access to relevant training.
m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
n) Responsibility for these activities must be clearly defined within the organisation.
o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

This strategy statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by the full council and there will also be a mid year report to the full Council. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code: -

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement (revised)	Full council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Full council	Annually before the start of the Council's year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Full council	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – major updates or revisions at other times	Cabinet	Ad hoc
Annual Treasury Outturn Report	Performance Scrutiny Committee	Annually by 30 September after the end of the year
Quarterly Treasury Management Monitoring Reports	Performance Scrutiny Committee	Quarterly
Treasury Management Practices	Chief Finance Officer (S.151 Officer)	
Scrutiny of treasury management strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance	Performance Scrutiny Committee	Annually by 30 September after the end of the year

1.2 Revised CIPFA Prudential Code

CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt.

Where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

1.3 Revised Investment Guidance

It should also be noted that the Department of Communities and Local Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

1.4 Treasury Management Strategy for 2010/11

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 issued subsequent to the Act) (included as paragraph 9 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 suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's 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 Minimum Revenue Provision (MRP) strategy

1.5 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.

2. Treasury Limits for 2010/11 to 2012/13

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.

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 and council rent levels is 'acceptable'.

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 two successive financial years, details of the Authorised Limit can be found in appendix 3 of this report.

3. Current Portfolio Position

The Council's treasury portfolio position at 16 February 2010 comprised:

Table 1

Borrowing by the Council	**Principal £m**	**Average Interest Rate %**
Market Loan - Variable Rate LOBO	2.0	11.625%
Total	**2.0**	
Investments by the Council		
External Fund Manager	16.1	1.100%
Internal Funds	13.2	0.550%
	29.3	
Net Debt	**(27)**	

4. Borrowing Requirement

The Council's borrowing requirement is as follows:

Table 2	2008/09 £'000 Actual	2009/10 £'000 Estimate	2010/11 £'000 Estimate	2011/12 £'000 Estimate	2012/13 £'000 Estimate
New Borrowing	0	0	620	0	0
Total Borrowing Requirement	**0**	**0**	**620**	**0**	**0**

The above table does not include potential borrowing for Decent Homes or possible borrowing required from the restructuring of the Housing Subsidy system. The former is excluded as it is dependent on Charnwood Neighbourhood Housing Ltd obtaining a two star rating and the assessment is currently under way. In addition, the profile of the funding and its support is not known at the present. Similarly, we are still awaiting the government proposals for the reform of the Housing Subsidy system and it is not possible to gauge what level of debt might be taken on and for what period etc.

5. Prudential and Treasury Indicators for 2010/11 – 2012/13

Prudential and Treasury Indicators (as set out in tables 3, 4 and 5 in appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted in March 2004 by the full Council and the revised Code will be adopted on 18 March 2010.

6. Prospects for 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 central view of our treasury advisers, Sector.

Sector Bank Rate forecast for financial year ends (March) as at 22 February 2010

- **2010 0.50%**
- **2011 1.00%**
- **2012 3.00%**
- **2013 4.50%**

A detailed view of the current economic background is contained within appendix 4 to this report.

7. Borrowing Strategy

7.1 Borrowing rates

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

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	1.00%	3.00%	4.50%
5yr PWLB rate	3.05%	3.10%	3.15%	3.20%	3.40%	4.50%	4.85%
10yr PWLB rate	4.35%	4.35%	4.45%	4.50%	4.60%	4.95%	5.15%
25yr PWLB rate	4.75%	4.75%	4.80%	4.85%	4.90%	5.20%	5.35%
50yr PWLB rate	4.75%	4.75%	4.80%	4.85%	4.90%	5.15%	5.30%

A more detailed Sector forecast is included in appendix 2. As the amount of potential borrowing is under 2.5% of the Council's net funds the timing of the borrowing, whilst it is important, it will not be crucial to the Council's overall interest costs and sustainability of its funding.

However, the following factors will be taken into account:

- Rates are expected to gradually increase during the year so it should therefore be advantageous to time new long term borrowing for the start of the year when 25 year PWLB rates fall back to or below the central forecast rate of about 4.65%, a suitable trigger point for considering new fixed rate long term borrowing.
- Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing.
- PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing which will spread debt maturities away from a concentration in long dated debt.
- There is expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This would maximise the potential for debt rescheduling and allow the Council to rebalance its debt maturity profile.
- Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

7.2 External v. internal borrowing

The council's current borrowing of £2m is due for repayment in 2024. With a current interest rate of 11.625% it is unlikely that the lender would wish this to be repaid early and we have been advised that this position is likely to continue whilst interest rates remain low. The level of premium that would be required to 'buy out' this loan would not represent value for money for the Council.

In view of this the council will continue to fund capital expenditure from its own resources, plus external grants etc, whilst interest rates remain low. The anticipated borrowing of £620k should be matched by external revenue funding to cover the interest costs.

7.3 Policy on borrowing in advance of need

The Council will not borrow 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.

8. Debt Rescheduling

Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantages of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to have happened simultaneously.

As mentioned in item 7.2 above it is unlikely that the premium charged for redeeming the council's one current borrowing would represent value for money during the forthcoming year.

Any debt rescheduling will be reported to the Performance Scrutiny Committee by the Chief Financial Officer at the earliest meeting following the action.

9. Annual Investment Strategy

9.1 Investment Policy

The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments 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 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 and are shown in Appendix 5.

9.2 Creditworthiness policy

This Council uses the creditworthiness service provided by Sector Treasury Services. This 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
- Credit Default Swaps (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, credit outlooks and CDS spreads in a weighted scoring system 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 Council is satisfied that this service now gives a much improved 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
- Other Local Authorities 12 months
- Debt Management Office No limit

This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored weekly and major changes are notified on a daily basis. The Council is 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 the downgrade of an institution or its removal from the Council's 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 information, information on government support for banks and the credit ratings of that government support as well as general information such as the media.

9.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ 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.

Currently all the Council's directly managed investments are with UK institutions. In addition, there are limits on the maximum amount that can be invested in all counterparties domiciled in a single country (except the UK) in order to mitigate sovereign risk.

9.4 Investment Strategy

In-house funds*:* The Council's in-house managed funds are mainly cash-flow derived and 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).

The investment strategy shall be to only invest in those institutions which are included in the counterparty list, and only to lend up to the limit set for each counterparty.

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

- **2010** 0.50%
- **2011** 1.00%
- **2012** 3.00%
- **2013** 4.50%

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

The Council will not invest directly for over 364 days and the 2010/11 Budget assumes a return of 0.98% on in-house investments placed during the financial year. This is slightly higher than Sector's view of 0.90%. In a full year the difference would be around £10k and officers believe that this is an achievable and prudent level.

9.5 End of year investment report

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

9.6 External fund managers

£16.1m of the Council's funds are externally managed on a discretionary basis by Investec Asset Management Ltd.

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

The fund manager's view on interest rates and opportunities for gilts/bonds is as follows:

Following the Bank of England's very benign inflation report in the week ending 12 February 2010 Investec thought it prudent to revise down their expected returns for 2010/11, as the Bank appears in no rush to raise rates.

The Bank's projections for GDP are broadly unchanged over the 2yr forecast period, raising the current level of GDP as revisions to recent quarters are increased and revising down next year's GDP, as a consequence of the level being higher today.

However, the significant change comes from the marked downward revision to inflation over the forecast period, following a larger near term hump forecast to be circa 3.3%. Under current market rates CPI inflation is forecast to be at 1.2%, well below the target in 2 years. There appeared to be no strong reasoning behind the sharply lower profile from the Bank of England, only the bank reiterated its belief there will be "persistent" and "substantial" spare capacity.

Gilt prices rose on the benign inflation report and received a further boost from the Bank's governor's comments about the potential to increase Quantitative Easing (QE) if necessary. However, the rally was short lived and prices over the last couple of days have fallen, as markets continue to focus on the endless supply of gilts. Some sceptics including Investec believe the Bank's low inflation outlook was aimed at underpinning gilts, for the fear of yields rising too quickly.

This dovish inflation report is likely to mean the first rate rise will not occur until Q3 or possibly Q4 this year. Hence the downward revision to expected returns next year. However, we do see the best value coming from gilts in the next financial year, particularly longer dated gilts with yields in excess of 4%. Our Investment strategy is to start accumulating a position in gilts at yields between 4.25% and 4.50%, which will assist in raising the overall return next year. Currently, 10yr Gilts are trading at 4%.

9.7 Policy on the use of external service providers

The Council uses Sector Treasury Services as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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. The provision of treasury management advisory services to the council is currently out to tender with the appointment of the successful tenderer due in April 2010.

9.8 Scheme of delegation

I. Full Council
   - approval of Treasury Management Policy Statement
   - approval of Treasury Management Strategy, Annual Investment Strategy and MRP Policy
   - other matters where full Council approval is required under guidance or statutory requirement.

II. Cabinet
   - approval of major updates or revisions to strategy during the year

III. Performance Scrutiny Committee
   - approval of Annual Treasury Outturn Report
   - consideration of Quarterly Treasury Management Monitoring Reports
   - scrutiny of Treasury Management Performance

IV. Audit Committee
   - scrutiny of Treasury Management Strategy

V. Chief Financial Officer (S.151 Officer)
   - Treasury Management Practices and day-to-day management of treasury management within agreed policy.
   - Appointment of external advisers, fund managers etc within existing Council procurement procedures.

9.9 Role of the section 151 officer

The Section 151 Officer is currently the Chief Executive, who has responsibility for the day-to-day running of the treasury management function and this role may be delegated to the Head of Financial Services.

APPENDICES

1. MRP strategy
2. Interest rate forecasts
3. Prudential and Treasury indicators
4. Economic background
5. Specified and non specified investments
6. Approved countries for investments
7. Treasury Management Policy Statement
8. Adoption of revised CIPFA Treasury Management Code of Practice 2009

APPENDIX 1

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."

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

The share of Housing Revenue Account CFR is not subject to an MRP charge.

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 Supported Capital Expenditure 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 Council adopted a new policy on 2nd March 2009 and this policy will be recommended for the 2010/11 year as well.

The following is the suggested Policy Statement:
The Council currently has an overall negative capital financing requirement and therefore does not have to make an MRP provision. If the council, in the future, funds capital expenditure from borrowing, then a policy will need to be adopted in line with the option set out in government guidance. At that time the most appropriate option would be adopted.

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 – 22.02.10

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.25%	3.75%	4.25%	4.50%
5yr PWLB rate	3.05%	3.10%	3.15%	3.20%	3.40%	3.65%	4.00%	4.30%	4.50%	4.65%	4.75%	4.80%	4.85%
10yr PWLB rate	4.35%	4.35%	4.45%	4.50%	4.60%	4.70%	4.75%	4.90%	4.95%	5.10%	5.10%	5.15%	5.15%
25yr PWLB rate	4.75%	4.75%	4.80%	4.85%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.35%	5.35%	5.35%
50yr PWLB rate	4.75%	4.75%	4.80%	4.85%	4.90%	5.05%	5.10%	5.15%	5.15%	5.30%	5.30%	5.30%	5.30%

Capital Economics interest rate forecast – 5.11.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
10yr PWLB rate	3.15%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
25yr PWLB rate	3.95%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
50yr PWLB rate	4.15%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%

UBS interest rate forecast (for quarter ends) – 18.02.10

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.25%
10yr PWLB rate	3.90%	4.05%	4.40%	4.75%	4.90%	5.15%	5.40%	5.40%
25yr PWLB rate	4.45%	4.65%	5.00%	5.15%	5.40%	5.65%	5.90%	5.90%
50yr PWLB rate	4.55%	4.75%	5.10%	5.25%	5.50%	5.75%	6.00%	6.00%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury December 2009 – summary of forecasts of 23 City and 12 academic analysts for Q4 2009 and 2010. Forecasts for 2010 – 2013 are based on 21 forecasts in the last quarterly forecast – November 2009.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2009	Q4 2010	ave. 2010	ave. 2011	ave. 2012	ave. 2013
Median	0.50%	0.50%	1.30%	0.70%	1.80%	3.00%	3.70%
Highest	0.50%	0.50%	2.30%	1.30%	3.30%	4.30%	4.60%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.40%

APPENDIX 3 Prudential and Treasury Indicators

TABLE 3: PRUDENTIAL INDICATORS	2008/09	2009/10	2010/11	2011/12	2012/13
Extract from 2010-11 Budget report and latest Capital Expenditure estimates	Actual	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
General fund	3258	9394	7346	2383	1000
HRA	4284	4783	4916	3706	3706
TOTAL	7542	14177	12262	6089	4706
Ratio of financing costs to net revenue stream					
General fund	-6.68%	-0.45%	-0.67%	-2.63%	-4.62%
HRA	2.43%	1.99%	2.33%	2.31%	2.29%
Net borrowing requirement					
Brought forward 1 April	0	0	0	620	620
Carried forward 31 March	0	0	620	620	620
In year borrowing requirement	0	0	620	0	0
Capital Financing Requirement as at 31 March					
General fund	-21	77	-5261	-7192	-7192
HRA	-3210	-3190	-2570	-3190	-3190
TOTAL	-3231	-3113	-7831	-10382	-10382
Annual change in Cap. Financing Requirement					
General fund - no borrowing expected	0	0	0	0	0
HRA	0	0	620	0	0
TOTAL	0	0	620	0	0

TABLE 3: PRUDENTIAL INDICATORS, continued	2008/09	2009/10	2010/11	2011/12	2012/13
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	**-0.18**	**-0.04**	**0.00**	**0.00**	**0.00**
Increase in average housing rent per week - HRA	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

TABLE 4: TREASURY MANAGEMENT INDICATORS	2008/09	2009/10	2010/11	2011/12	2012/13
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt -					
Borrowing	2,000	2,000	8,000	8,000	8,000
Other long term liabilities	0	0	0	0	0
TOTAL	2,000	2,000	8,000	8,000	8,000
Operational Boundary for external debt -					
Borrowing	2,000	2,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0	0
TOTAL	2,000	2,000	5,000	5,000	5,000
Actual external debt	2,000	2,000	2,620	2,620	2,620
Upper limit for fixed interest rate exposure					
expressed as:-					
Net interest re fixed rate borrowing / investments	75%	75%	75%	75%	75%
Upper limit for variable rate exposure					
expressed as:-					
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	50%	50%	50%	50%	50%
(per maturity date)					

TABLE 5: CBC's Maturity structure of fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	70%	0%
10 years and above	100%	25%

APPENDIX 4 Economic Background

Economic Background

4.1. Introduction

- The credit crunch storm of August 2007 eventually fed through to the near collapse of the world banking system in September 2008. This then pushed most of the major economies of the world into a very sharp recession in 2009 accompanied by a dearth of lending from banks anxious to rebuild their weakened balance sheets. Many governments were forced to recapitalise and rescue their major banks and central banks precipitately cut their central bank rates to 0.10 – 1.00% in order to counter the recession.
- The long awaited start of growth eventually came in quarter 3 2009 in the US and the EU. However, there was disappointment that the UK failed to emerge from recession in quarter 3 although it did in quarter 4.
- Inflation has plunged in most major economies and is currently not seen as being a problem for at least the next two years due to the large output gaps and high unemployment putting a lid on wage growth. In many countries there have been widespread pay freezes in 2009 and these are likely to be persistent for some time.
- Deflation could become a threat in some economies if they were to go into a significant double dip recession.
- Asian countries, especially China, are buoying world demand through their own stimulus measures.
- There still needs to be a radical world rebalancing of excess savings rates by cash rich Asian and oil based economies and excess consumption rates in Western economies if the world financial system is not to avoid a potential rerun of this major financial crisis in years to come.
- Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate and to restore the previous health of national finances.

4.2 Two growth scenarios

- The current big issue is 'how quickly will the major world economies recover?' There is a sharp division of opinion on this question as set out below. The knock on effects on forecasts for interest rates can be seen in appendix 2 – UBS reasonable recovery, Capital Economics – weak recovery.

4.2.1 Strong recovery

- This is a normal cyclical recovery which will be strong in the major world economies. The US still has potential to add further fiscal stimulus in 2010 to ensure that strong recovery continues after the current round of stimulus measures end. Growth in the EU is likely to be strong in 2010 and not require such help.

The UK:

- GDP growth will almost get back to the long term average of about 2.5% in 2011 but is likely to peak in the first half of the year as inventory rebuilding and stimulus measures fade and fiscal contraction kicks in later in the year.
- The economy will rebalance with strong growth in exports and import substitution helped by strong recovery in the EU and the rest of the world.
- Sterling has depreciated by 25% since the peak in 2007 and is likely to stay weak.

- Consumer spending – only a mediocre recovery is expected due to a steady increase in the savings ratio from +5.6% in 2009 to about 8% in 2011 as consumers pay down debt or build cash balances. Consumer incomes will be held down by wage freezes and increases in taxation.
- House price recovery is expected to persist helped by a low Bank Rate for a prolonged period; the peak to trough fall in house prices is now expected to be no more than 20%. House prices to rise by about 6% in 2010, and 3% in 2011; mortgage approvals will rise back to the level of 75 - 80,000 per month needed to ensure a continuation of a trend of rising house prices.
- CPI inflation to peak @ 2.5% in early 2010 after the rise in VAT in January but then to fall to a trough near 1.5% in early 2011 and to stay below 2% for the rest of 2011.
- The current MPC attitude is one of hang on as long as possible before increasing Bank Rate. The aim of this would be to try to ensure that growth gets going at a decent rate and that Bank Rate gets back to 4 – 5% before the next recession and that all assets purchased through QE have been sold off by then. The first Bank Rate increase is expected in Q3 2009.
- If there is a change of Government in 2010 with a more aggressive fiscal approach then this could delay the timing of Bank Rate starting to go up.
- The fiscal deficit is 6.4% of GDP, about £90bn, which is expected to fall at £11bn p.a. over eight years at currently planned rates. This is similar to the peak deficit of 7% in 1990s which was remedied to a surplus of 1.6% in the space of 6 years helped by strong, steady economic growth of 3% p.a. supported by loose monetary policy that compensated for the fiscal squeeze.
- Gilt yields, especially longer term ones, are currently artificially low due to the Bank of England's Quantitative Easing operations. £200bn of gilts, commercial bonds and paper are being purchased under this scheme which has inflated prices and depressed yields. Once this campaign ends, yields will inevitably rise but will also rise due to the huge level of issuance of new gilts to finance the fiscal deficit. Long gilt yields are therefore forecast to reach 6% during 2011.
- Gilt yields could rise higher if there was a hung Parliament in 2010 or if the fiscal situation deteriorates further.
- The major risk to this scenario would be a lack of supply of bank credit. However, it is felt that the Bank of England is on alert to ensure that this does not happen and would continue various measures to assist the expansion of credit.

4.2.2 Weak recovery

- The current economic cycle is not a normal business cycle but a balance sheet driven cycle. Over borrowed banks, corporates and consumers are focused on shrinking their levels of borrowing to more viable and affordable levels and this balance sheet adjustment will take several years to be effected. Repayment of debt will therefore act as a major head wind to the required increase in demand in the economy. Consequently there will only be weak economic recovery over the next few years after the initial sharp inventory rebuilding rebound fades. GDP growth is forecast to reach only +1.5% in 2011.
- Fiscal contraction will further dampen economic recovery driven by a strong political agenda to accelerate cuts in expenditure and increases in taxation after the general election in 2010.
- The consumer savings ratio will rise so as to eliminate over borrowing and to insure against people losing their jobs during this downturn. This will depress consumer expenditure, the main driver of the UK economy.
- Growth will also be hampered by a reduced supply of credit from weakened banks compounded by weak demand for credit.
- The eventual reversal of Quantitative Easing will take cash out of the economy and reduce demand in the economy.
- Unemployment is likely to rise to near to 3m in 2010 and take years to subside due to weak growth. High unemployment will reduce tax income and increase expenditure on benefits and the costs of local authority services.

- Inflation will not be a threat for several years as the current 6% output gap will take until 2014 to be eliminated.
- However, deflation is a major danger for some years: the major falls in manufacturing prices over the last 12 -18 months have still to feed through to the economy and then to impact wage deflation.
- CPI inflation will blip up over 2% in early 2010 but will then be on a strong downward trend to about -1% in 2011.
- There is no need for the MPC to change Bank Rate from 0.5% in 2010 or 2011 and possibly for 5 years as they will need to counter the fiscal contraction which will dampen demand in the economy.
- Long PWLB rates will FALL from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels

4.2.3 Sector view

- Sector recognises that at the current time it is difficult to have confidence as to exactly how strong the UK economic recovery will prove to be. Both the above scenarios are founded on major assumptions and research which could or could not turn out to be correct.
- Sector has adopted a more moderate view between these two scenarios outlined above i.e. a moderate return to growth.
- We do, however, feel that the risks that long term gilt yields and PWLB rates will rise markedly are high.
- There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -
  - degree of speed and severity of fiscal contraction after the general election
  - timing and amounts of the reversal of Quantitative Easing,
  - speed of recovery of banks' profitability and balance sheet imbalances
  - changes in the consumer savings ratio
  - rebalancing of the UK economy towards exporting and substituting imports
- The overall balance of risks is weighted to the downside i.e. the pace of economic growth disappoints and Bank Rate increases are delayed and / or lower
- There is an identifiable risk of a double dip recession and deleveraging creating a downward spiral of falling demand, falling jobs and falling prices and wages leading to deflation but this is considered to be a small risk and an extreme view at the current time on the basis of current evidence

APPENDIX 5 Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:

(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**
UK Debt Management Office Deposit Facility	Government backed	In-house and Fund Manager
Term deposits – local authorities	High Security – not credit rated	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers (Maximum sum per counterparty is £5m)
Certificates of deposits issued by Banks and Building Societies	Short-term F1+, Long term AA, Individual B/C, Support 1/ 2	Fund Manager
UK Government Gilts	Long Term AAA	Fund Manager
Money Market Funds	Long term AAA	Fund Manager and In-house (Maximum limit of £3m in MMFs in house)
Bonds issued by multilateral development banks	Long term AAA	Fund Manager

Institutions will be removed from the list where there are doubts about their security. Any institution whose CDS rating is shown 'Out of Range' by Sector will be removed from the list. In addition, upper limits on deposits with any one institution will be reduced if there is the view that whilst they should not be removed from the list there are reasons to reduce the council's exposure.

Since the credit crunch crisis there have been a number of developments which require separate consideration and approval for use: -

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 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.

Blanket 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 use of such banks will depend on both their own rating and also their country's sovereign rating. If the latter is not on the list then that bank would not be used, even if its own credit rating was sufficient.

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Banks nationalised by high credit rated (sovereign rating) countries	Short-term F1+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers	**25% in house**	**3 months or as long as guarantee exists from Government (In house)**
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries	Sovereign rating AAA	In-house and Fund Managers	**25% in-house**	**3 months (in house)**
UK Government support to the banking sector**	Sovereign rating AAA	In-house and Fund Managers	**100%**	**364 days (in house)**

**Banks eligible for support under the UK bail-out package: -

- Santander UK
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are investments which do not meet the requirement of specified investments. They must all be sterling denominated with a maximum invested of £17.5m of council funds. Please note that the Fund Manager restricts sums lent to each name to 20% and average maturity shall not exceed three years.

1. Maturities of up to three years

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies	Short-term F1+, Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
Certificates of deposits issued by banks and building societies	Short-term F1+ Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
UK Government Gilts	AAA	Fund Managers	50% restriction above 364 days	10 years
Bonds issued by multilateral development banks	AAA or government guarantee	Fund Managers	50%	Not to exceed 10 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	Fund Managers	50% restriction above 364 days	Not to exceed 2 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	50%	Not to exceed 10 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
1. Bond Funds	Long-term AAA volatility rating	Fund Managers	50% restriction above 364 days	Open ended
2. Gilt Funds	Government backed and AAA	Fund Managers	50% restriction above 364 days	Open ended

APPENDIX 6 Approved countries for investments

AAA

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

AA+

- Australia
- Belgium

In house funds:

No more than £3m would be invested at any one time with institutions domiciled in any of the above countries, except the UK which is unlimited. A maximum of 40% of in-house funds can be invested with foreign institutions at any one time.

Fund Managers:

Limits as per Appendix 5

APPENDIX 7 Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

APPENDIX 8 Adoption of the revised CIPFA Treasury Management Code of Practice 2009

INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

The revised Code has also set out various requirements which have been summarised in paragraph 1 of the latest Treasury Management Strategy Statement.

RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

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

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

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

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

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Chief Financial Officer (S.151 Officer), who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.