Report for Resolution

Report to	Council 31 March 2009	7
Report of	Head of Finance	
Subject	Treasury Management Strategy Report 2009/10	

Purpose

This report outlines the Council's prudential indicators for 2009/10 – 2011/12 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 B).

A summary report outlines the key requirements from these reports.

Recommendations

The Council is recommended to:

1. Adopt the Prudential Indicators and Limits for 2009/10 to 2011/12 contained within Appendix A of the report.
2. Approve the Treasury Management Strategy 2009/10, and the Prudential Indicators contained within Appendix B.
3. Approve the Investment Strategy 2009/10 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Annex B1.

Financial Consequences

The report has no direct financial consequences however it does set the guidelines for how the Council manages its borrowing and investment resources

Contact Officers

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Background Documents

None

Report

Background

Previous twelve months

The last twelve months have been challenging for the Council's treasury management team. The Council was approached by Icelandic Banks who were offering attractive deals at higher interest rates than were available with UK or Irish institutions. These deals were rejected because of the high levels of gearing these banks were operating under and the high lending levels associated with the Icelandic government. The decision was subsequently proved correct with the failure of a number of Icelandic banks. More recently the Council has withdrawn its investments from Ireland, although to date there has been no failure of Irish banks the Irish sovereign state has been put on a negative watch status by at least one of the main credit rating agencies and most recently the Audit Commission has requested details from Local Authorities in relation to investments in a number of Irish institutions. At present the Council has £29.4m invested in 16 UK building societies and 2 UK banks.

Current Position

The Council is starting to see a fall in its investment income with interest rates falling from peak placements in September 2008 of 6.5% to achieving rates of 2.90% for 3 month investments in recent deals, our overnight rate is currently averaging at 0.75% with the Abbey Reserve call account.

As our longer term higher interest rated investments mature, we will see a continuing decline in income over the twelve months which has been included within the budget set at the February Council meeting earlier in the year.

The Future

This decline in investment income will be further compounded by the Council using its reserves to support expenditure over the next twelve months. At present we are unable to predict when an improvement in rates is likely to take place and expect the present position to last for at least 12 months.

Executive Summary

1 Capital Expenditure - The capital plan approved by members on the 24 February 2009 projected capital expenditure to be:-

Capital expenditure **£ '000's**	**2008/09** **Revised**	**2009/10** **Estimated**	**2010/11** **Estimated**	**2011/12** **Estimated**
Non HRA	6,513	8,561	7,566	964
HRA	26,903	22,366	16,500	18,647
Total	33,416	30,927	24,066	19,611

2 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 £'000's	**2008/09** **Revised**	**2009/10** **Estimated**	**2010/11** **Estimated**	**2011/12** **Estimated**
Non HRA	32,037	30,822	29,463	28,283
HRA	53,938	54,125	54,437	54,521
Total	85,957	84,947	83,901	82,804

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:

£'000's	**2008/09** **Revised**	**2009/10** **Estimated**	**2010/11** **Estimated**	**2011/12** **Estimated**
Authorised limit	106000	106000	106000	106000
Operational boundary	86000	86000	86000	86000

The impact of the new schemes being approved as part of this budgetary cycle on Council Tax and housing rents are expected to be:

Incremental impact of capital investment decisions (£) on:	**2008/09** **Revised**	**2009/10** **Estimated**	**2010/11** **Estimated**	**2011/12** **Estimated**
Band D Council Tax	0.00	0.00	0.00	0.00
Housing rents levels	0.00	0.00	0.00	0.00

3 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.

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Total resources	33,416	30,927	24,066	19,611
Working Capital	-4,847	-13,205	-17,867	-19,247
Total Investments	36,895	36,386	30,163	27,146
Principal sums invested > 364 days		9,000	10,000	5,300

Appendix A
The Prudential Indicators 2008/09 – 2011/12

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 2008/09, 2009/10 and 2010/11, and introduces new indicators for 2011/12. 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 2009/10 is included as Appendix 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:

£'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Capital Expenditure				
Non-HRA	6,513	8,561	7,566	964
HRA	26,903	22,366	16,500	18,647
Total Expenditure	33,416	30,927	24,066	19,611
Financed by:				
Supported Capital Expenditure	2300	2300	1610	0
Capital grants	1,7,56	1,105	270	270
Major Repairs Allowance	9,448	9,879	9,978	10,078
Highways Programme	237	0	0	0
Revenue Contributions	6,205	7,659	4,635	6,192
Leaseholders	250	250	250	250
Capital receipts	12,054	6,783	7,073	2,821
S106 funds	1,166	2,915	250	
other		36		
Total Resources	33,416	30,927	24,066	19,611
Net financing need for the year	**0**	**0**	**0**	**0**

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 the 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 - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

9. CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement: MRP will follow the existing practice.

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

£'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Capital Financing Requirement				
CFR – Non Housing	32,037	30,822	29,463	28,283
CFR – Housing	53,938	54,125	54,437	54,421
Total CFR	**85,975**	**84,947**	**83,901**	**82,804**
Movement in CFR		**-1,028**	**-1,047**	**-1097**
Movement in CFR represented by				
Net financing need for the year (above)		0	0	0
MRP/VRP and other financing movements		1,028	1,047	1,097
Movement in CFR		**1,028**	**1,047**	**1097**

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

11. 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 £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Fund balances	18,221	9,496	8,500	8,500
Capital receipts	12,054	6,783	7,073	2,821
Earmarked reserves etc	1,429	1,174	920	720
S106	1,166	2,915	250	0
Total Core Funds	**32,870**	**20,368**	**16,743**	**12,041**
Working Capital*	-4,847	-13,205	-17,867	-19,247
Expected Investments	**36,895**	**36,386**	**30,163**	**27,146**

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

Limits to Borrowing Activity

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

13. 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.

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Gross Borrowing	83,592	83,592	83,592	83,592
Less Transferred Debt	2,980	2,749	2,526	2,321
	80,612	**80,843**	**81,066**	**81,271**
Investments	36,895	36,386	30,163	27,146
Net Borrowing	43,720	44,457	50,903	54,125
	80,612	**80,843**	**89,124**	**81,271**
CFR	**85,975**	**84,947**	**83,901**	**82,804**

14. The Head of Finance 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.

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

16. **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*.*

17. **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.

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

Authorised Limit £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Borrowing	106000	106000	106000	106000
Other long term liabilities				
Total	106000	106000	106000	106000
Operational Boundary £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Borrowing	86000	86000	86000	86000
Other long term liabilities				
Total	86000	86000	86000	86000

Affordability Prudential Indicators

19. 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:

20. **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.

%	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Non-HRA	5.90	6.11	7.44	8.10
HRA	11.46	9.47	10.90	10.25

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

22. **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.

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

£	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12
Council Tax - Band D	0.00	0.00	0.00

24. **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.

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

£	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12
Weekly Housing Rent levels	0.00	0.00	0.00

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

Appendix B

Treasury Management Strategy 2009/10 – 2011/12

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix 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 2 April 2002, 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 and the Council's Financial Regulations require 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;
    - Specific limits on treasury activities;

Debt and Investment Projections 2009/10 – 2011/12

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.

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
External Debt				
Debt at 1 April	83,592	83,592	83,592	83,592
Expected change in debt	0	0	0	0
Debt at 31 March	83,592	83,592	83,592	83,592
Operational Boundary	86000	86000	86000	86000
Investments				
Total Investments at 31 March	36,895	36,386	30,163	27,147
Investment change		-509	-6,223	-3,016

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

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Revenue Budgets				
Interest on Borrowing	7,360	7,213	7,357	7,504
Related HRA Charge	4,131	4,049	4,130	4,212
Net General Fund Borrowing Cost	3,229	3,164	3,227	3,292
Investment income	2,249	1,237	1,025	923

Expected Movement in Interest Rates

Medium-Term Rate Forecasts (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	1.0	1.6	1.8	2.4	3.9	3.8
2010/11	1.7	2.1	2.8	3.2	4.1	4.0
2011/12	2.4	2.8	3.6	4.0	4.3	4.1

Borrowing Strategy 2009/10 – 2011/12

7. 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.

8. Long-term fixed interest rates are at risk of being higher over the medium term. The Director of Finance, 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 shorter term fixed rates may provide better opportunities.

9. With the likelihood of a steepening of the yield curve debt restructuring is likely focus on switching from longer term fixed rates to cheaper shorter term debt, although the Director of Finance and treasury consultants will monitor prevailing rates for any opportunities during the year.

10. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

Investment Counterparty and Liquidity Framework

11. 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 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.

    - 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.

12. The Director of Finance 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. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

- **Banks 1** – the Council will use banks which have at least the following Fitch, Moody's and Standard and Poors ratings (where rated):
- **Short Term** – *F1*
- **Long Term** – *A+/A*
- **Individual / Financial Strength** – *B/C* (Fitch / Moody's only)
- **Support** – *3* (Fitch only)
- **Banks 2 –** in addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
  - (a) wholesale deposits in the bank are covered by a government guarantee;
  - (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
  - (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- **Banks 3** - the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008
- **Banks 4** – the Council's own banker if this falls below the above criteria
- **Bank Societies** – the Council will use all Societies, subject to an investment limit of 1% of the society's assets and with assets in access of £250m subject to ratings set out above.
- **Money Market Funds** – where the investees within the fund accord with the rating requirements set out above.
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

13. Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from

this criteria to safer instruments and institutions. Currently this involves the use of the DMADF, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

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

	Fitch	**Moody's**	**Standard & Poors**	**Money Limit**	**Time Limit**
Upper Limit Category	*F1,A*	P-1,A2	A-1,A	£4m	4yrs
Lower Limit Category	Unrated	Building	Societies	£4m or 1%	XXyrs
Other Institution Limits Local Authorities Unrated Wholly owned Subsidiaries	-	-	-	 £4m £4m	 364 days 3 mths
Guaranteed Organisations	-	-	-	£4m	3 mths

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

16. 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.

17. 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

27. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 1.5% Bank Rate reducing throughout 2009. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

28. There is a clear operational difficulty arising from the current banking crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

29. **The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Head of Finance will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for**

approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

30. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria has been amended to reflect these facilities.

Treasury Management Prudential Indicators and Limits on Activity

31. There are four further treasury prudential indicators the Council is asked to approve the following prudential indicators:

£m	2009/10	2010/11	2011/12
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Limits on fixed interest rates:			
• ***Debt only***	100%	100%	100%
• ***Investments only***	100%	100%	100%
Limits on variable interest rates			
• ***Debt only***	20%	20%	20%
• ***Investments only***	20%	20%	20%
Maturity Structure of fixed interest rate borrowing 2009/10			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	30%
5 years to 10 years		0%	50%
10 years and above		0%	95%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£8m	£8m	£5m

Performance Indicators

32. 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.

    The authority will report the internal returns on the investment portfolio above the 7 day LIBID rate in its Treasury Management Investment Performance Report.

A local indicator has been set within the Service Team Plan to achieve 105% above the LIBOR rate. (LIBOR is a more challenging target on which to gauge performance when compared to the LIBID counterpart.)

Annex B1

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 adopted the Code on 02/04/2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

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

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

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

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

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

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society.
6. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

For category 4 this covers pooled investment vehicles, such as money market funds, rated *AAA* by Standard and Poor's, Moody's or Fitch rating agencies.

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

Maturity Limits	
The Council's Bankers	1 Month
Banks and Rated Building Societies	364 Days
UK Local Authorities	364 Days
Counterparty Limits	
The Council's Bankers	£8million
Banks and Rated Building Societies	£4million
UK Local Authorities	£4million

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.	£0
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.	£0

	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.	
c.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £*250*m.	£4million or 1% of total assets
d.	Any **bank or building society** that has a minimum long term credit rating of *A+/A,* for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum limit of 100%, so long as no more than 25% of investments have maturities of longer than one year at any one time.
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category.	£4million for a maximum of 3 months
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.	£0

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

Use of External Fund Managers –The Council does not use external fund managers.

Appendix A
The Prudential Indicators 2008/09 – 2011/12

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 2008/09, 2009/10 and 2010/11, and introduces new indicators for 2011/12. 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 2009/10 is included as Appendix 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:

£'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Capital Expenditure				
Non-HRA	6,513	8,561	7,566	964
HRA	26,903	22,366	16,500	18,647
Total Expenditure	33,416	30,927	24,066	19,611
Financed by:				
Supported Capital Expenditure	2300	2300	1610	0
Capital grants	1,7,56	1,105	270	270
Major Repairs Allowance	9,448	9,879	9,978	10,078
Highways Programme	237	0	0	0
Revenue Contributions	6,205	7,659	4,635	6,192
Leaseholders	250	250	250	250
Capital receipts	12,054	6,783	7,073	2,821
S106 funds	1,166	2,915	250	
other		36		
Total Resources	33,416	30,927	24,066	19,611
Net financing need for the year	**0**	**0**	**0**	**0**

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 the 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 - MRP), although it is also allowed to undertake additional voluntary payments (VRP).
9. CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement: MRP will follow the existing practice.
10. The Council is asked to approve the CFR projections below:

£'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Capital Financing Requirement				
CFR – Non Housing	32,037	30,822	29,463	28,283
CFR – Housing	53,938	54,125	54,437	54,421
Total CFR	**85,975**	**84,947**	**83,901**	**82,804**
Movement in CFR		**-1,028**	**-1,047**	**-1097**
Movement in CFR represented by				
Net financing need for the year (above)		0	0	0
MRP/VRP and other financing movements		1,028	1,047	1,097
Movement in CFR		**1,028**	**1,047**	**1097**

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

11. 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 £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Fund balances	18,221	9,496	8,500	8,500
Capital receipts	12,054	6,783	7,073	2,821
Earmarked reserves etc	1,429	1,174	920	720
S106	1,166	2,915	250	0
Total Core Funds	**32,870**	**20,368**	**16,743**	**12,041**
Working Capital*	-4,847	-13,205	-17,867	-19,247
Expected Investments	**36,895**	**36,386**	**30,163**	**27,146**

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

Limits to Borrowing Activity

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

13. 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.

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Gross Borrowing	83,592	83,592	83,592	83,592
Less Transferred Debt	2,980	2,749	2,526	2,321
	80,612	**80,843**	**81,066**	**81,271**
Investments	36,895	36,386	30,163	27,146
Net Borrowing	43,720	44,457	50,903	54,125
	80,612	**80,843**	**89,124**	**81,271**
CFR	**85,975**	**84,947**	**83,901**	**82,804**

14. The Head of Finance 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.

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

16. **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.

17. **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.

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

Authorised Limit £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Borrowing	106000	106000	106000	106000
Other long term liabilities				
Total	106000	106000	106000	106000
Operational Boundary £'000's	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Borrowing	86000	86000	86000	86000
Other long term liabilities				
Total	86000	86000	86000	86000

Affordability Prudential Indicators

19. 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:

20. **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.

%	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Non-HRA	5.90	6.11	7.44	8.10
HRA	11.46	9.47	10.90	10.25

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

22. **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.

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

£	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12
Council Tax - Band D	0.00	0.00	0.00

24. **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.

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

£	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12
Weekly Housing Rent levels	0.00	0.00	0.00

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

Appendix B

Treasury Management Strategy 2009/10 – 2011/12

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix 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 2 April 2002, 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 and the Council's Financial Regulations require 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;
    - Specific limits on treasury activities;

Debt and Investment Projections 2009/10 – 2011/12

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.

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
External Debt				
Debt at 1 April	83,592	83,592	83,592	83,592
Expected change in debt	0	0	0	0
Debt at 31 March	83,592	83,592	83,592	83,592
Operational Boundary	86000	86000	86000	86000
Investments				
Total Investments at 31 March	36,895	36,386	30,163	27,147
Investment change		-509	-6,223	-3,016

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

£'000's	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Revenue Budgets				
Interest on Borrowing	7,360	7,213	7,357	7,504
Related HRA Charge	4,131	4,049	4,130	4,212
Net General Fund Borrowing Cost	3,229	3,164	3,227	3,292
Investment income	2,249	1,237	1,025	923

Expected Movement in Interest Rates

Medium-Term Rate Forecasts (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	1.0	1.6	1.8	2.4	3.9	3.8
2010/11	1.7	2.1	2.8	3.2	4.1	4.0
2011/12	2.4	2.8	3.6	4.0	4.3	4.1

Borrowing Strategy 2009/10 – 2011/12

7. 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.

8. Long-term fixed interest rates are at risk of being higher over the medium term. The Director of Finance, 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 shorter term fixed rates may provide better opportunities.

9. With the likelihood of a steepening of the yield curve debt restructuring is likely focus on switching from longer term fixed rates to cheaper shorter term debt, although the Director of Finance and treasury consultants will monitor prevailing rates for any opportunities during the year.

10. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

Investment Counterparty and Liquidity Framework

11. 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 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.

    - 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.

12. The Director of Finance 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. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

- **Banks 1** – the Council will use banks which have at least the following Fitch, Moody's and Standard and Poors ratings (where rated):

- **Short Term** – *F1*
- **Long Term** – *A+/A*
- **Individual / Financial Strength** – *B/C* (Fitch / Moody's only)
- **Support** – *3* (Fitch only)

- **Banks 2 –** in addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
  - (a) wholesale deposits in the bank are covered by a government guarantee;
  - (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
  - (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- **Banks 3** - the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008
- **Banks 4** – the Council's own banker if this falls below the above criteria
- **Bank Societies** – the Council will use all Societies, subject to an investment limit of 1% of the society's assets and with assets in access of £250m subject to ratings set out above.
- **Money Market Funds** – where the investees within the fund accord with the rating requirements set out above.
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

13. Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from

this criteria to safer instruments and institutions. Currently this involves the use of the DMADF, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

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

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	*F1,A*	P-1,A2	A-1,A	£4m	4yrs
Lower Limit Category	Unrated	Building	Societies	£4m or 1%	XXyrs
Other Institution Limits Local Authorities Unrated Wholly owned Subsidiaries	-	-	-	 £4m £4m	 364 days 3 mths
Guaranteed Organisations	-	-	-	£4m	3 mths

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

16. 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.

17. 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

27. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 1.5% Bank Rate reducing throughout 2009. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

28. There is a clear operational difficulty arising from the current banking crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

29. **The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Head of Finance will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for**

approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

30. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria has been amended to reflect these facilities.

Treasury Management Prudential Indicators and Limits on Activity

31. There are four further treasury prudential indicators the Council is asked to approve the following prudential indicators:

£m	2009/10	2010/11	2011/12
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Limits on fixed interest rates:			
• ***Debt only***	100%	100%	100%
• ***Investments only***	100%	100%	100%
Limits on variable interest rates			
• ***Debt only***	20%	20%	20%
• ***Investments only***	20%	20%	20%
Maturity Structure of fixed interest rate borrowing 2009/10			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	30%
5 years to 10 years		0%	50%
10 years and above		0%	95%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£8m	£8m	£5m

Performance Indicators

32. 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.

    The authority will report the internal returns on the investment portfolio above the 7 day LIBID rate in its Treasury Management Investment Performance Report.

A local indicator has been set within the Service Team Plan to achieve 105% above the LIBOR rate. (LIBOR is a more challenging target on which to gauge performance when compared to the LIBID counterpart.)

Annex B1

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 adopted the Code on 02/04/2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

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

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

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

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

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

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society.
6. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

For category 4 this covers pooled investment vehicles, such as money market funds, rated *AAA* by Standard and Poor's, Moody's or Fitch rating agencies.

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

Maturity Limits	
The Council's Bankers	1 Month
Banks and Rated Building Societies	364 Days
UK Local Authorities	364 Days
Counterparty Limits	
The Council's Bankers	£8million
Banks and Rated Building Societies	£4million
UK Local Authorities	£4million

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.	£0
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.	£0

	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.	
c.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £*250*m.	£4million or 1% of total assets
d.	Any **bank or building society** that has a minimum long term credit rating of *A+/A,* for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum limit of 100%, so long as no more than 25% of investments have maturities of longer than one year at any one time.
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category.	£4million for a maximum of 3 months
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.	£0

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

Use of External Fund Managers –The Council does not use external fund managers.