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TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY REPORT 2009/10

EXECUTIVE MEMBER: Councillor Allan Holliday, Deputy Leader
LEAD OFFICER: Julie Crellin, Head of Finance and MIS
REPORT AUTHOR: Ann Fisher, Senior Accountancy Officer

Recommendations:

The Council is recommended to approve each of the five key elements:

1. The Prudential Indicators and Limits for 2009/10 to 2011/12 contained within Appendix A of the report.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2009/10 to 2011/12, and the treasury Prudential Indicators contained within Appendix B.
4. The Authorised Limit Prudential Indicator.
5. The Investment Strategy 2009/10 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Annex B1.

Executive Summary

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 four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A);
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
- The **treasury management strategy statement** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and shown at Appendix B;
- The **investment strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance. And also shown in Appendix B.

A summary report outlines the key requirements from these reports.

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

Capital expenditure £000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Total	5,646	5,373	2,041	298

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, its borrowing need, is reduced each year by the statutory revenue charge for the repayment of debt, the MRP.

Capital Financing Requirement £000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Total	0	0	0	0

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	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Authorised limit	9,000	9,000	9,000	9,000
Operational boundary	5,100	5,100	5,100	5,100

The total revenue impact of the new schemes being approved as part of this budgetary cycle on Council Tax levels 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	0	0	0

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. This provides an overall estimate of the year end investment position. The prudential indicator limiting longer term investments is also shown, which is designed to reduce the Council's risk to adverse cash flow risk and counterparty risk.

£000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Total resources	17,371	14,164	11,829	11,639
Working Capital	2,133	2,133	2,133	2,133
Under/over borrowing	5,060	5,060	5,060	5,060
Total Investments	**24,564**	**21,357**	**19,022**	**18,832**
Principal sums invested > 364 days	12,000	12,000	12,000	12,000

Appendix A

The Capital Prudential Indicators 2009/10 – 2011/12

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2011/12.
2. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2009/10 to 2011/12 is included as Appendix B to complement these indicators, the treasury strategy includes the prudential indicators relating specifically 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. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This needs to be affordable, sustainable and prudent. The revenue consequences of unsupported expenditure will need to be paid for from the Council's own resources.
4. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual expenditure will add to the Council's borrowing need.
5. The key risks to the plans are that the level of Government support has been estimated and therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. Anticipated asset sales may be postponed due to the impact of the credit crisis on the property market.
6. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure £000	**2008/09 Revised**	**2009/10 Estimated**	**2010/11 Estimated**	**2011/12 Estimated**
Total	5,646	5,373	2,041	298
Financed by:				
Capital receipts	2,052	3,100	601	268
Capital grants	3,575	2,105	1,440	30
Capital reserves	19	168	0	0
Revenue	0	0	0	0
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 asked to approve the CFR projections below:

£000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
CFR – Non Housing	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**
Movement in CFR	**0**	**0**	**0**	**0**

Movement in CFR represented by				
Net financing need for the year (above)	0	0	0	0
MRP/VRP and other financing movements	0	0	0	0
Movement in CFR	**0**	**0**	**0**	**0**

9. 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).

10. 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 :

11. It is intended to voluntarily apply usable capital receipts in 2008/09 to reduce the Capital Financing Requirement to zero. There would be no need for a MRP adjustment if this is achieved. In the event that this is not achieved for capital expenditure incurred before 1 April 2008 or which in the future will Supported capital Expenditure, the MRP policy will be

    - **Existing practice** – MRP will follow the existing practice outline in former CLG Regulations (Option 1).

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

    - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (Option 3);

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

13. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to 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	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Fund balances	2,747	2,367	2,357	2,357
Capital receipts	6,930	5,586	5,015	4,797
Earmarked reserves	6,996	5,513	3,759	3,787
Provisions Etc.	698	698	698	698
Total Core Funds	**17,371**	**14,164**	**11,829**	**11,639**
Working Capital	2,133	2,133	2,133	2,133
Under/over borrowing	5,060	5,060	5,060	5,060
Expected Investments	**24,564**	**21,357**	**19,022**	**18,832**

Affordability Prudential Indicators

14. 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 Council’s overall finances. The Council is asked to approve the following indicators:

15. **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	(8)	(1)	(1)	(1)

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

17. **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.

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

£	Proposed Budget 2008/09	Forward Projection 2009/10	Forward Projection 2010/11	Forward Projection 2011/12
Council Tax - Band D	0	0	0	0

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 14th March 2002, and as a result adopted a Treasury Management Policy Statement (24th February 2004). This adoption meets the requirements of the first of the treasury prudential indicators.
3. The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.
4. This strategy covers:
    - The Council's debt and investment projections;
    - The Council's estimates and limits on future debt levels;
    - The expected movement in interest rates;
    - The Council's borrowing and investment strategies;
    - Treasury performance indicators;
    - Specific limits on treasury activities;
    - Any local treasury issues.

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. The expected debt position at the end of each year represents the Operational Boundary prudential indicator. The table also highlights the expected change in investment balances.

£000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
External Debt				
Debt at 1 April	5,100	5,100	5,100	5,100
Expected change in debt	0	0	0	0
Debt at 31 March	5,100	5,100	5,100	5,100
The debt estimated at 31 March represents the Council's Operational Boundary				
Investments				
Total Investments at 31 March	24,564	21,357	19,022	18,832
Investment change	1,053	(3,207)	(2,335)	(190)

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

£000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Revenue Budgets				
Interest on Borrowing	0	0	0	0
Investment income	41	(26)	(85)	(122)

Limits to Borrowing Activity

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

8. 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 2009/10 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

£000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Gross Borrowing	5,000	5,000	5,000	5,000
Investments	(24,564)	(21,357)	(19,022)	(18,832)
Net Borrowing	(19,564)	(16,357)	(14,022)	(13,832)
CFR	0	0	0	0

9. The Head of Finance and MIS 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.

10. The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. 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. The Government retains an option to control either the total of all councils'

11. The Council is asked to approve the following Authorised Limit:

Authorised limit £000	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Borrowing	9,000	9,000	9,000	9,000
Other long term liabilities	0	0	0	0
Total	9,000	9,000	9,000	9,000

Expected Movement in Interest Rates

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	1.2	1.8	2.0	2.1	3.9	3.8
2010/11	1.9	2.3	3.0	3.2	4.1	4.0
2011/12	2.6	3.0	3.8	4.0	4.3	4.1

* Borrowing Rates

12. The UK economy has entered a profound recession, worsened by a dangerous combination of negative growth and dislocation in the domestic and world financial markets. The situation in the economy is considered critical by the policy setters who are concerned that the testing financial environment, the sharp decline in house prices and persistently tight credit conditions could trigger a collapse in consumer confidence. At best this could deliver a short, sharp downturn, at worst a prolonged Japanese-style recession.

13. The sharp downturn in world commodity, food and oil prices, the lack of domestic wage pressures and weak retail demand promises a very steep decline in inflation in the year ahead. In the recent pre-Budget Report, the Treasury suggested RPI inflation could fall to minus 2.25% by September 2009. Inflation considerations will not be a constraint upon Bank of England policy action. Indeed, the threat of deflation strengthens the case for more aggressive policy ease.

14. The Government’s November pre-Budget Report did feature some fiscal relaxation but it also highlighted the very poor health of public sector finances. The size of the package is considered insufficient to kick-start the economy. The onus for economic stimulation will fall upon monetary policy and the Bank of England.

15. The Bank will continue to ease policy and the need to drive commercial interest rates, currently underpinned by the illiquidity of the money market, to much lower levels suggests the approach will be more aggressive than might otherwise have been the case. A Bank Rate of 1% is now a reality and short-term LIBOR rates of below 2% may result. Only when the markets return to some semblance of normality will official rates be edged higher.

16. Long-term interest rates will be the victim of conflicting forces. The threat of deep global recession should drive bond yields to yet lower levels and this will be a favourable influence upon the sterling bond markets. But the prospect of exceptionally heavy gilt-edged issuance in the next three years (totalling in excess of £100bn per annum), as the Government seeks to finance its enormous deficit, could severely limit the downside potential for yields.

Borrowing Strategy 2009/10 – 2011/12

17. 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.

18. Long-term fixed interest rates are at risk of being higher over the medium term. In the unlikely event that borrowing proves to be necessary the Head of Finance and MIS, 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.

19. 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 Head of Finance and MIS and treasury consultants will monitor prevailing rates for any opportunities during the year.

Investment Counterparty and Liquidity Framework

20. 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.

21. The Head of Finance and MIS 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

- **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*
- **Individual / Financial Strength** – *C* (Fitch / Moody's only)
- **Support** – *4* (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 fails below the above criteria
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will use the top thirty Societies.
- **Money Market Funds** – *AAA*
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

23. 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.

22. 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	*AA*	Aa1	AA	£3m	3yrs
Middle Limit Category	A-	A3	A-	£3m	2yrs
Lower Limit Category				£3m	1yr
Other Institution Limits	-	-	-	£3m	3yr
Guaranteed Organisations	-	-	-	£3m	1yr

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

24. 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.

25. 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 2009/10 – 2011/12

26. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 1% Bank Rate reducing throughout 2009 and into 2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

27. 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.

28. **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 and MIS 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"**

29. 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.

Sensitivity to Interest Rate Movements

30. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£000	**2009/10 Estimated + 1%**	**2009/10 Estimated - 1%**
Revenue Budgets		
Interest on Borrowing	0	0
Investment income	153	(153)

Treasury Management Prudential Indicators and Limits on Activity

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

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

£000	2009/10	2010/11	2011/12
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	5,100	5,100	5,100
Limits on variable interest rates based on net debt	5,100	5,100	5,100
Limits on fixed interest rates:			
• ***Debt only***	*5,100*	*5,100*	*5,100*
• ***Investments only***	*30,000*	*30,000*	*30,000*
Limits on variable interest rates			
• ***Debt only***	*5,100*	*5,100*	*5,100*
• ***Investments only***	*15,000*	*15,000*	*15,000*
Maturity Structure of fixed interest rate borrowing 2009/10			
		Lower	**Upper**
Under 12 months		0%	50%
12 months to 2 years		0%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£000 12,000	£000 12,000	£000 12,000

Performance Indicators

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

    - Investments – Internal returns above the 7 day LIBID rate

    The results of these indicators will be reported in the Treasury Annual Report for 2008/09.

Local Issues

34. The Council still has the one remaining Market Loan in its debt portfolio, of £5 million. The position of this loan is continually assessed with our Treasury Consultants, Butlers to see whether we are securing the best terms for the Council. At the current time the advice is to leave

35. The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in treasury management are properly trained.

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 14th March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance and MIS 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 A (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 a maximum amount of £3M for a maximum period of 3 years.

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.	**3M for 3 years** **3M for 3 years**

b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	**3M**
c.	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.	**3M**
d.	**A body which is an Eligible Institution for the HM Treasury Credit Guarantee Scheme** initially announced on 13 October 2008.	**3M**
e.	**The Council's own banker if it fails to meet the basic credit criteria**. In this instance balances will be minimised as far as is possible.	**3M**
f.	**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 are in the top 30, but will restrict these type of investments to 1 year in length.	**3M for 1 year**
g.	Any bank or building society that has a minimum long term credit rating of 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%, but no more than £12M of investments to have maturities of longer than one year at any one time.
h.	Any non rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the parent institution having a minimum rating of A (or the equivalent) as rated by Standard & Poor's, Moody's or Fitch rating agencies.	**3M for 365 days**
i.	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.	

Within categories c, d and e, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. This criteria is that a maximum mount of £18M will be invested over all 3 categories but the length of the investments will be limited to the timescale of the guarantee or 1 year whichever is the shorter period.

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 Head of Finance and MIS, and if required new counterparties which meet the criteria will be added to the list.

List of Consultees: Butlers Treasury Management Advisers

<u>CHECKLIST FOR DEALING WITH KEY ISSUES</u>

Please confirm against the issue if the key issues below have been addressed. This can be by either a short narrative or quoting the paragraph number in the report in which it has been covered.

Impact on Crime and Disorder	None
Impact on Sustainability	None
Impact on Rural Proofing	None
Health and Safety Implications	None
Impact on Equality and Diversity Issues	None
Children and Young Persons Implications	None
Human Rights Act Implications	None
Section 151 Officer Comments	The Proposed Capital Programme 2009/10 – 2011/12 does not require the need for prudential borrowing. The use of prudential borrowing, however, will be kept under review.
Monitoring Officer Comments	None