COUNCIL
2nd MARCH 2010
Item____

TREASURY MANAGEMENT STRATEGY 2010/11 – 2012/13 AND ANNUAL INVESTMENT STRATEGY 2010/11 AND MINIMUM REVENUE PROVISION STATEMENT 2010/11

EXECUTIVE MEMBER:	Councillor Elaine Woodburn, Leader of the Council
LEAD OFFICER:	Julie Crellin, Head of Finance and MIS
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Summary

This report sets out the proposed Treasury Management Strategy 2010/11-2012/13; its Investment Strategy and Minimum Revenue Provision Strategy for 2010/11 and consequently, fulfils four key legislative requirements concerning the expected treasury operations of the Council, setting the framework for the Council's borrowing and investment activities and the funding of the Capital Programme. Executive its meeting of 16th February 2010 discussed the report and recommend it for Council's approval.

Recommendations:

Council is recommended to approve the six key elements of the Council's Treasury Management Strategy 2010/11 – 2012/13; its Borrowing and Investment Strategy 2010/11- 2012/13; its Annual Investment Strategy 2010/11 and Minimum Revenue Provision Statement 2010/11. The recommendations are to approve :-

1. The Prudential Indicators and Limits for 2010/11 to 2012/13 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 2010/11 to 2012/13, and the treasury Prudential Indicators contained within Appendix B.
4. The Authorised Limit Prudential Indicator.
5. The Investment Strategy 2010/11 contained in the Treasury Management Strategy (Appendix B), and the detailed criteria included in Appendix B1. (noting the inclusion of the Cumberland Building Society and Furness Building Society in the counter party list set out in Appendix B para 46).
6. The revision to the Council's constitution and financial regulations at Appendix B3. This revision nominates the Audit Committee to ensure

1 INTRODUCTION

1.1 The Council's Financial Regulations require the Treasury Management Strategy to be reported to Council on an annual basis. This report complies with this requirement. It also sets the framework against which the Treasury Management activity of the Council will be evaluated against and the basis of the mid-year performance report and year end outturn report for 2010/11.

1.2 In agreeing this report, Members will be demonstrating the Council's compliance with legislative requirements under the Local Government Act 2003, concerning the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.3 The Local Government Act 2003 introduced a new borrowing system for local authorities known as the Prudential Code (the Code). The Code began on 1st April 2004 and it gives Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.

1.4 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.

1.5 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate to demonstrate that they may not be. The Code requires reporting procedures to be implemented to monitor the progress and status of the capital expenditure plans. The Council's capital expenditure plans are set out in the Capital Programme, and the proposed Capital Programme 2010/11 – 2012/13 is set out elsewhere on the agenda for consideration.

1.6 A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

1.7 The Capital Prudential Indicators set out in Appendix A demonstrate that Council is fulfilling these objectives. It is for Council's to set any indicative limits or ratios. It is also important to note that the indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process. The prudential indicators are included in this strategy, covering the period 2010/11 – 2012/13 and are set out in Appendix A.

2 DETAIL – TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MRP STRATEGY 2010/11

2.1 This report and its appendices are very detailed and have been prepared to ensure compliance with the legislative requirements. In summary, the strategy 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 treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;
- 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 is 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. This is also shown in Appendix B.

2.2 In terms of understanding its main messages, I would like to make a number of observations and comments to Members.

2.3 Executive received in the mid-year report 2009/10, (December meeting), revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice, produced in November 2009 were referred to. The revisions to the Codes were as a consequence of the 2008/2009 world-wide crisis in the financial markets, and resulting banking failures.

2.4 The main changes initiated in the revisions above increase the Members' responsibility in this area. This would require greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information. Butlers (the Council's Treasury Management advisors) provide regular training events for the Council and the last one, in November was well attended. It is the intention of the Accountancy function to continue to work with the Council's advisors to ensure regular training is provided.

2.5 One element of the revised CIPFA Treasury Management Code of Practice is that the **clauses to be adopted** as part of the Council's financial regulations be amended. This revision is shown at Appendix B3 for approval. The key change is that a responsible body (committee, board or group) be responsible for ensuring the effective scrutiny of the treasury management strategy and policies.

2.6 Council is recommended to approve that the Audit Committee is assigned the responsibility of providing effective scrutiny of the treasury management function and this be reflected in the constitution. Executive will continue to monitor the performance of the function, receiving the mid-year report and the annual performance report. However, as the Audit Committee considers the annual accounts on behalf of the Council, an extension of its terms of reference to involve the scrutiny of the treasury management function is deemed appropriate. Particularly as the Committee received a detailed report at the September 2009 meeting concerning the Treasury Management function, in the light of the Audit Commission's national report 'Risk and Return' in the aftermath of the Icelandic Banking collapse. In addition, the work of the Audit Committee is reported quarterly to Council.

2.7 The CLG is currently consulting on changes to the Investment Guidance. The revised guidance arising from these Codes has been incorporated within these reports, with the CLG proposals being incorporated where these do not conflict with current Guidance. If necessary, the Investment Strategy contained in Appendix B will be revised in the year if any elements of the final CLG Investment Guidance have not already been covered.

2.8 CLG is also consulting on the draft regulations and regulations setting out the proposed measures to mitigate the impact of the requirements of International Financial Reporting Standards local authorities will need to comply with in 2010/11. The results of the consultation have not been published. The Audit Committee have been kept informed of the Council's preparations to address the IFRS requirements. One area of impact relates to accounting for public finance initiatives and the potential for schemes to come 'on balance sheet' which will result in an increase in assets and liabilities (similar to a finance lease arrangement). We have considered the current PFI scheme against the accounting requirements for 2009/10 and our view (prior to external audit) is that the tests of ownership have not been met. The Treasury Management Strategy proposed does not include a revision either to the MRP policy; the Capital Financing Requirement and the Authorised Limit which would be required if the PFI scheme was deemed to 'be on balance sheet.'

2.9 Members will note that the Investment Strategy (Appendix B para 46) includes the option to lend on a short term basis to the local building societies of the Cumberland and Furness Building Societies. These institutions would normally fall below the Council's main lending criteria (they are not credit rated) but have been included as a local policy decision. Executive and Resources Planning Working Group expressed

2.10 In consultation with the Council's Treasury Management Advisers, the level of risk is considered to be acceptable if investments are limited to £1million each with the counterparties and with the length of investment restricted to a 4 month maximum. At 22nd January, the list of top 30 building societies (scheduled in order of the asset base) showed the Cumberland Building Society ranking of 15th place out of 30 and the Furness ranking of 19th place out of 30. Both institutions are part of the 20 of the top 30 building societies who choose not to be rated by the credit rating institutions. The top 30 building societies in our schedule are also eligible institutions and afford a degree of support in principle from the Bank of England.

2.11 It is expected that the financial markets will begin to return to normality over the course of 2010/11. Counterparty risk remains high, but should become more subdued and with the expectation of an increasing Bank Rate, value will begin to return to longer term investments. The Council's investment strategy is safeguarding the re-payment of the principal and interest of its investments on time – the investment return being a secondary objective. Following on from the economic background, the current investment climate has one over-riding risk consideration, that of counterparty risk. The current counterparty criteria is under regular review - Members will recall that the Treasury Management Annual Report for 2008/09 (presented to Executive in August) increased the lending maximum in response to the need for flexibility (confirmed by Council) and this is reflected in Appendix B1 – where the maximum amount of investment with an appropriately rated and approved institution is set at £5million.

2.12 The Council has one remaining Market Loan in its debt portfolio, of £5million. The position of this loan is continually assessed to see if we are securing best terms for the loan and whether or not it would be financially viable to repay the loan. At the moment, because of the large premium for premature repayment, it is not viable (para 54 – Appendix B). The Capital Programme, does however, indicate the possibility of drawing upon this borrowing to support the funding of schemes in development, of up to £2 million over a two year period. This is set out in the Capital Programme 2010/11 – 2012/13 report elsewhere on the agenda. This draw down on borrowing already undertaken would be conditional upon Executive agreement of the scheme and a satisfactory PID which would demonstrate at least a return sufficient to repay the principal of the loan. The interest payments on the loan are currently provided for within the revenue budget.

2.13 Finally, in the event that borrowing is necessary, the Head of Finance and MIS, under delegated powers, would take the most appropriate form of borrowing depending on the prevailing interest rates at the time and taking into account contemporaneous forecasts. Executive agreement would be sought and any amendment to the Treasury Management Strategy, if required, would be sought from Council.

3 FINANCIAL AND HUMAN RESOURCES IMPLICATIONS (INCLUDING SOURCES OF FINANCE)

3.1 Returns on investments support the Council's budget and the interest earned is included in the Accountancy Budget. A detailed projection of the return upon investments is undertaken when setting the budget and is regularly updated as part of the budget monitoring process.

3.2 The interest paid on the Council's existing borrowing is included in the revenue budget and again, is included in the Accountancy Budget.

4 PROJECT AND RISK MANAGEMENT

4.1 The policies and parameters set out in the report provide an approved framework within which the officers undertake the day to day capital and treasury activities.

4.2 In addition, the recommendation to amend the Council's constitution to assign clear responsibilities of the Audit Committee to review the Treasury Management function provides an additional reporting mechanism to demonstrate compliance with the Code and good practice, contributing to the mitigation of risk.

5 IMPACT ON CORPORATE PLAN

5.1 By ensuring that the Council utilises its resources effectively, Treasury Management supports the delivery of the Corporate Plan.

List of Appendices:
Appendix A – The Capital Prudential Indicators 2010/11 – 2012/13
Appendix B – Treasury Management Strategy 2010/11 – 2012/13
Appendix B(1) – Credit and Counterparty Risk Management
Appendix B(2) – Security, Liquidity and Yield Benchmarking
Appendix B(3) – Treasury Management Clauses to Form Part of Financial Regulations

List of Background Documents:

- Report to Executive – 16th February 2010 (prior to Council).
- Treasury Management Annual Report 2008/09 to Executive 25 August 2009
- Mid Year Prudential Indicators and Treasury Management Monitoring Report to Executive 14 December 2009
- Audit Committee Report – 23rd September 2009 - 'Risk and Return'

List of Consultees:

Butlers Treasury Management Advisers (Richard Dunlop)
Alison Clark, Accountancy Services Manager
Corporate Team

CHECKLIST FOR DEALING WITH KEY ISSUES

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 directly attributable
Impact on Sustainability	None directly attributable
Impact on Rural Proofing	None directly attributable
Health and Safety Implications	None directly attributable
Impact on Equality and Diversity Issues	None directly attributable
Children and Young Persons Implications	None directly attributable
Human Rights Act Implications	None directly attributable
Section 151 Officer Comments	No further comments to add – joint author for the report
Monitoring Officer Comments	Financial Regulations delegate responsibility for the implementation and monitoring of the Council's Treasury Management policies and practices to the Executive. However, revisions to Financial Regulations themselves need to be approved by Council

Is this a Key Decision ? YES

Appendix A

The Capital Prudential Indicators 2010/11 – 2012/13

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 2012/13.
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 2010/11 to 2012/13 is included as Appendix B to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

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 unsupported capital expenditure needs to have regard to:
   - Service objectives (e.g. strategic planning);
   - Stewardship of assets (e.g. asset management planning);
   - Value for money (e.g. option appraisal);
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
   - Affordability (e.g. implications for the council tax and rents);
   - Practicality (e.g. the achievability of the forward plan).
4. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.
5. 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.
6. 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.

7. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure £000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 Estimated**
Total	6,878	7,600	2,030	1,680
Financed by:				
Capital receipts	2,964	2,993	1,297	966
Capital grants	3,867	2,581	727	714
Capital reserves	13	0	0	
Revenue	34	26	6	
Net financing need for the year	**0**	**2,000**	**0**	**0**

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

8. 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.

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

£000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 Estimated**
CFR – Non Housing	(47)	1,953	1,953	1,953
Total CFR	**(47)**	**1,953**	**1,953**	**1,953**
Movement in CFR	**0**	**2,000**	**0**	**0**

Movement in CFR represented by				
Net financing need for the year (above)	0	2,000	0	0
MRP/VRP and other financing movements	0	0	0	0
Movement in CFR	**0**	**2,000**	**0**	**0**

10. 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).

11. 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. MRP would not become payable on the Albion Square project until the building becomes operational. The Council is recommended to approve the following MRP Statement:

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

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

13. 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) (this is termed ‘Option 3’).

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

14. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or 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	2009/10 Revised	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
Fund balances	2,470	2,091	2,091	2,091
Capital receipts	4,964	4,262	7,696	7,997
Earmarked reserves (including sinking funds)	6,668	4,410	3,929	3,786
Provisions Etc.	751	751	751	751
Total Core Funds	**14,853**	**11,514**	**14,467**	**14,625**
Working Capital	(1,837)	(1,837)	(1,837)	(1,837)
Under/over borrowing	3,407	1,407	1,407	1,407
Expected Investments	**16,423**	**11,084**	**14,037**	**14,195**

Affordability Prudential Indicators

15. 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:

16. **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.

%	2009/10 Revised	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
Non-HRA	2	2	0	(2)

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

18. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with ***proposed changes*** 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.

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

£	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12	Forward Projection 2012/13
Council Tax - Band D	0	0	(1)	(1)

Appendix B

Treasury Management Strategy 2010/11 – 2012/13

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.
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 – revised November 2009). This Council adopted the Code of Practice on Treasury Management on 14th March 2002, and will adopt the revised code.
3. As a result of adopting the code the Council also adopted a Treasury Management Policy Statement (24th February 2004). This adoption is the requirements of one of the prudential indicators. However the revised Code of Practice has amended the Treasury Management Policy Statement and this is appended at Annex B3 for approval.
4. 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, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.
5. 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 2010/11 – 2012/13

6. 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 maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position. The table also highlights the expected change in investment balances.

£000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 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	16,423	11,084	14,037	14,195
Investment change	(3,413)	(5,339)	2,953	158

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

£000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 Estimated**
Revenue Budgets				
Interest on Borrowing	0	0	0	0
Investment income	(28)	(131)	(143)	(261)

Limits to Borrowing Activity

8. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.
9. 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 2010/11 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

£000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 Estimated**
Gross Borrowing	5,000	5,000	5,000	5,000
Investments	(16,423)	(11,084)	(14,037)	(14,195)
Net Borrowing	(11,423)	(6,084)	(9,037)	(9,195)
CFR	0	1,953	1,953	1,953

10. 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.

11. 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.

12. 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' plans, or those of a specific council, although no control has yet been exercised.

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

Authorised limit £000	**2009/10 Revised**	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 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

14. Borrowing in advance of need – The Council has some flexibility to borrow funds this year for use in future years. The Director of Finance may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Director of Finance will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that (this is draft CLG guidance, so may not be adopted in the final Guidance, but may be considered good practice):

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

15. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. It is not expected however that this facility will be required during this planning period.

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	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.6	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

16. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantative Easing {QE}), could trigger a dip back to negative growth and a W-shaped GDP path.

17. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

18. The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

19. The MPC will continue to promote easy credit conditions via QE. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further next February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

20. With inflation set to remain subdued in the next few years, the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity prices begin to rise again) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

21. Longer term rates are expected to be more volatile. The current 'softness' of gilt yields & PWLB rates may continue for a while yet, given that these are being driven by a benign international backdrop and the effects of QE. Nevertheless this process will come to an end before the close of the financial year.

22. This is likely to herald a return to rising yields for a number of reasons:
    - Net gilt issuance will rise sharply;
    - This will be increased by the extent to which the BoE attempts to claw back funds injected to the economy via the QE programme;
    - Investors will be looking to place more of their funds in alternative instruments as their risk appetite increases, demand for gilts will weaken as a consequence;
    - A decision to leave QE in place will generate inflation concerns and pressurise long yields higher.

    The market/BoE is in a lose/lose situation.

Borrowing Strategy 2010/11 – 2012/13

23. 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.
24. It is unlikely that the Council will need to borrow during this planning process. However if it is needed 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 Strategy 2010/11 – 2012/13

25. **Key Objectives -** The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.
26. **Risk Benchmarking** – A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached at Annex B2.
27. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

28. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
    - 0.10% historic risk of default when compared to the whole portfolio.
29. Liquidity – In respect of this area the Council seeks to maintain:
    - Bank overdraft - £0.5m
    - Liquid short term deposits of at least £1m available with a week's notice.
    - Weighted Average Life benchmark is expected to be 0.3 years, with a maximum of 1.0 years.
30. Yield - Local measures of yield benchmarks are:
    - Investments – Internal returns above the 7 day LIBID rate

Investment Counterparty Selection Criteria

31. 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.
32. 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.
33. 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. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.
34. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the

counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

35. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- **Banks 1 - Good Credit Quality** – the Council will only use banks which:

  i. Are UK banks; and/or

  ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA

  And have, as a minimum, 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 – Guaranteed Banks with suitable Sovereign Support** – 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 - Eligible Institutions** - the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.

- **Banks 4 –** The Council's own banker for transactional purposes if this fails below the above criteria although in this case balances will be minimised in both monetary size and time.

- **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 as long as they are also Eligible Institutions.
- **Money Market Funds** – *AAA*
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

A limit of 95% will be applied to the use of Non-Specified investments.

36. **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- no more than 50% will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Sector limits will be monitored regularly for appropriateness.

37. **Use of additional information other than credit ratings** – Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

38. **Time and Monetary Limits applying to Investments** - The time and monetary 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*	Aa2	AA	£5m	3yrs
Middle Limit Category	A-	A3	A-	£5m	1yrs
Lower Limit Category				£5m	1yr
Other Institution Limits	-	-	-	£5m	3yr
Guaranteed Organisations	-	-	-	£5m	1yr

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

40. 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.

41. 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 longer term investment limits.

42. **Economic Investment Considerations -** Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-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.

43. 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.

44. **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" conditions. Similarly the time periods for investments will be restricted.**

45. 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.

46. With regard to the Cumberland and Furness Building Societies which would not fulfil the temporarily restricted criteria a special case can be made for restarting investments with these counterparties. The level of risk is considered to be acceptable if investments are limited to £1million with each of the counterparties and the length of the investments is restricted to a 4 Month maximum.

Sensitivity to Interest Rate Movements

47. 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	2010/11 Estimated + 1%	2010/11 Estimated - 1%
Revenue Budgets		
Interest on Borrowing	0	0
Investment income	111	(111)

Treasury Management Limits on Activity

48. There are four further treasury activity limits, which were previously prudential indicators. The purpose of these 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/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This 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 with regard to the Council's liquidity requirements and 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 with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

49. The Council is asked to approve the following limits:

£000	2010/11	2011/12	2012/13
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*** • ***Investments only***	 *5,100* *30,000*	 *5,100* *30,000*	 *5,100* *30,000*
Limits on variable interest rates • ***Debt only*** • ***Investments only***	 *5,100* *15,000*	 *5,100* *15,000*	 *5,100* *15,000*
Maturity Structure of fixed interest rate borrowing 2010/11			
		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 to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	100%
40 years and above		0%	0%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£000 12,000	£000 12,000	£000 12,000

Performance Indicators

50. 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 2009/10.

Treasury Management Advisers

51. The Council uses Butlers as its treasury management consultants. The company provides a range of services which include:

    - Technical support on treasury matters, capital finance issues and the drafting of Member reports;
    - Economic and interest rate analysis;
    - Debt services which includes advice on the timing of borrowing;
    - Debt rescheduling advice surrounding the existing portfolio;

- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

52. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

Member and Officer Training

53. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by continuing a programme of training for officers and Members that commenced in March 2009 with a basic course provided by Butlers the Councils Treasury Management advisers and followed up in November 2009 with two training sessions specifically tailored to the requirements of Officers and Members respectively. Training will continue to be arranged at regular intervals to ensure that Officers and Members acquire and maintain an appropriate level of expertise, knowledge and skills, and are therefore fully equipped to undertake the duties and responsibilities allocated to them.

Local Issues

54. 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 this loan in its present form because of the large premium for premature repayment.

55. 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.

Appendix B1

Treasury Management Practice (TMP) 1 – 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. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. 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.

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 considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure 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. 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.
5. A body that is considered of a high credit quality (such as a bank or building society. For category 5 this covers bodies with a minimum short term 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 a maximum amount of £5M 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	 **5M for 3 years** **5M for 3 years**

	before maturity and losses may accrue if the bond is sold before maturity.	
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.	**5M**
c.	**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.	**10K**
d.	**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 and are Eligible Institutions, but will restrict these type of investments to 1 year in length.	**5M for 1 year**
e.	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.
f.	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.	**5M for 365 days**

Within categories 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 both 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 (changes, rating watches and rating outlooks) from Butlers 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.

Appendix B2

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service - A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £1m available with a week's notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.3 years, with a maximum of 1 year**.**

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%
A	0.03%	0.15%	0.30%	0.44%	0.65%
BBB	0.24%	0.78%	1.48%	2.24%	3.11%

The Council’s minimum long term rating criteria is currently A, meaning the average expectation of default for a one year investment in a counterparty with a “A” long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council’s maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.1% historic risk of default when compared to the whole portfolio.

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

Appendix B3

Treasury Management Clauses to form part of Financial Regulations

1. This Council will create and maintain, as the cornerstones for effective treasury management:
   - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
   - Suitable TMPs, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
2. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.
3. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Head of Finance and MIS, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. The organisation nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.