	Executive – 2nd March 2011	Agenda Item No.
WARWICK DISTRICT COUNCIL		

Title: Treasury Management Strategy Plan for 2011/2012

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Service Area	Finance
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management in the Public Services – A Code of Practice and associated guidance notes– CIPFA The Prudential Code for Capital Finance in Local Authorities - CIPFA Treasury Management file L1/9 Treasury Management information via External Advisors, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes - 269

Officer/Councillor Approval

With regard to officer approval all reports *must* be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).

Officer Approval	**Date**	**Name**
Relevant Director	27/01/2011	Andy Jones
Chief Executive	N/A	N/A
CMT	02/02/2011	N/A
Section 151 Officer	28/01/2011	Mike Snow
Legal	N/A	N/A
Finance	27/01/2011	Roger Wyton
Portfolio Holder(s)	08/02/2011	Cllr. A.Mobbs

Consultation Undertaken	
None	
Final Decision?	Yes
Suggested next steps (if not final decision please set out below) N/A	

1. SUMMARY

1.1 This report details the strategy for 2011/12 that the Council will follow in carrying out its Treasury Management activities including the Annual Investment Strategy and Minimum Revenue Provision (MRP)Policy Statement. This item is a requirement first included in the 2009/10 report arising as a result of regulations changing MRP provision from a statutory basis of 4% of the Council's General Fund Capital Financing Requirement to one of statutory guidance. Further explanation is provided in appendix C. Both the Annual Investment Strategy and the MRP Policy Statement can only be approved by the full Council.

1.2 The report consists of a number of Appendices:-

Appendix A – CIPFA Treasury Management Code of Practice
Appendix B - Annual Treasury Management Strategy Plan 2011/12
Appendix C – 2011/12 Annual Investment Strategy
Appendix D – Minimum Revenue Provision Policy Statement
Appendix E – An Explanation of Credit Rating Terms
Appendix F – Treasury Management Scheme of Delegation
Appendix G – The Treasury Management Role of the S151 Officer
Appendix H – Various Treasury Management Practices

2. RECOMMENDATIONS

2.1 That the Executive approves:-

a) The Treasury Management Strategy for 2011/12 as outlined in Appendix B,

b) The changes to the various Treasury Management Practices as detailed in paragraph 1.5 of Appendix B.

2.2 That the Executive recommends to Council:-

a) The 2011/12 Annual Investment Strategy in Appendix C including the change, referred to in paragraph 2.2, in Sovereign Rating from AAA to at least equal that of the United Kingdom at the point at which the investment was taken out , .

b) That the increase in counterparty limits as detailed in paragraphs 6.3 (a) & (b) of the Annual Investment Strategy be approved

c) The Minimum Revenue Provision Policy Statement contained in paragraphs 3.1 and 3.2 of Appendix D.

d) Adoption of the revised 2009 CIPFA Treasury Management Code of Practice as outlined in Appendix A, paragraph 2.

2.3 That the Executive notes Appendices F (Treasury Management Scheme of Delegation) & G (Treasury Management Role of the S151 Officer) which are included for information only as required by the 2009 Code of Practice.

3. REASONS FOR RECOMMENDATIONS

3.1 The Council is required to have an approved Treasury Management Strategy, including an Annual Investment Strategy and Minimum Revenue Provision Policy within which its Treasury Management operations can be carried out. The Council will be investing approximately £12.796 million in new capital in 2011/2012 and will have average investments of £34.6 million. This level of investments arises from our reserves and provisions, the General Fund and Housing Revenue Account balances, and accumulated capital receipts as well as cashflow.

3.2 The change in the Sovereign Rating referred to in 2.2(a) above is required to ensure that should the UK ever lose its AAA rating, as seemed possible for a while in 2010, the Council's investments in UK based institutions which constitute the majority of its overall investments do not contravene the credit rating criteria laid down in the Annual Investment Strategy.

3.3 The increase in the counterparty limits referred to in 2.2(b) above is part of the strategy to reduce our exposure to the Building Society sector and particularly the unrated Building Societies.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 None, the approval of an annual Treasury Management Strategy is a requirement of the C.I.P.F.A. Treasury Management in the Public Services Code of Practice which has been adopted by the Council (see recommendation 2.2d above).

5. BUDGETARY AND POLICY FRAMEWORK

5.1 The Treasury Management Strategy has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimise its borrowing interest payable. The performance of the Treasury Management function is reported quarterly to the Finance & Audit Scrutiny Committee which is the body charged by the Council with overseeing the treasury management activities of the council. Also an annual report for the Finance & Audit Scrutiny Committee is prepared at the end of the financial year on Treasury Management and compliance with the strategy and the Treasury Management Practices is reviewed as part of the annual Treasury Management audit.

5.2 Treasury Management is an evolving process and whilst it is not possible to compare investment returns from year to year due to differing economic climates, the previous year's performance is reviewed to see what lessons can be learnt that would help improve the current and future years investment returns and/or the security of the investments. This may take the form of a change in the type of investment vehicle used such as happened a few years ago with the introduction of Money Market Funds or it may result in changes in counterparty limits as is being recommended in this report in order to potentially improve both security and return.

APPENDIX A CIPFA TREASURY MANAGEMENT CODE OF PRACTICE

1. BACKGROUND

1.1 The original Treasury Management Code of Practice was adopted by the Council in 2003. This code of practice was revised during 2009 but unfortunately was not issued in time to be formally adopted by the Council when the 2010/11 Treasury Management Strategy report was presented in February 2010. It is now required to be formally adopted by the Council.

2. REQUIREMENTS OF THE CODE

2.1 The primary requirements of the Code to be adopted are as follows:-

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities. In this Council's instance, the Treasury Management Policy Statement is defined as follows;-

a) The Council defines its treasury management activities as "The management of the Council's investments and cash flows, it's banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks"

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

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

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Executive of an annual Treasury Management Strategy Plan - including the Annual Investment Strategy and Minimum Revenue Provision Policy (the latter two to be approved by the full Council in accordance with the Code) - for the year ahead. In addition, receipt by the Finance and Audit Scrutiny Committee of quarterly review reports and an Annual Report covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions as described in the relevant Treasury Management Practice (TMP 5).

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Finance and Audit Scrutiny Committee.

APPENDIX B ANNUAL TREASURY MANAGEMENT STRATEGY PLAN 2011/12

1. **GENERAL**

1.1 This part of the report outlines the strategy that the Council will follow during 2011/12. Its production and submission to the Executive is a requirement of the C.I.P.F.A. Code of Practice on Treasury Management in the Public Services.

1.2 The suggested strategy for 2011/12 in respect of the treasury management function is based upon the officer's view on interest rates, supplemented with leading market forecasts provided by Sector Treasury Services who are the Council's treasury advisers.

1.3 The 2003 Prudential Code for Capital Finance in local authorities which was revised in 2009 introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy. The Prudential Code requires the Council to set a number of Prudential Indicators and this report does therefore incorporate the indicators to which regard should be given when determining the Council's treasury management strategy for the next 3 financial years.

1.4 It is also a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from a) increases in interest charges caused by increased borrowing to finance additional capital expenditure b) any increases in running costs from new capital projects and c) the loss of interest on balances or reserves arising from their use in financing the capital expenditure are limited to a level which is affordable within the projected income of the council for the foreseeable future. This is covered by the Prudential Indicator calculating the Incremental Impact on the Council Tax or Housing Rent in paragraph 5.3 below.

1.5 The Council's treasury management operations are also governed by various Treasury Management Practices (TMP's), the production of which was a requirement of the CIPFA code and which must be explicitly followed by officers engaged in treasury management. These have previously been reported to the Executive and approved. There have been the following changes to various Treasury Management Practices (TMP's) which are included as Appendix H for information

TMP 1 Risk Management

Paragraph 2.1 – Change in sovereign credit rating from AAA to that of the UK at the time that the investment was made. This is to ensure that if at any time the UK should lose its AAA status our existing investments with UK institutions are not in breach of our credit rating criteria as they would have a lower sovereign rating e.g. AA- than permitted by the AAA sovereign rating stipulated in the credit rating criteria. Given that the majority of our investments are with UK based institutions, the loss of the UK's AAA sovereign rating would also have a very significant impact on our ability to invest were we to retain the AAA sovereign rating criteria.

Paragraph 2.2 – change in counterparty limit to £6 million for certain counterparties. In addition the maximum amount of core investments that can be invested for more than 364 days is reduced from £10m to £9m to reflect an expected reduction in the balances which make up the core investments. Also the amount that can be invested for more than 364 days with a Category A building society is reduced from £2 million to £1 million.

TMP2 Best Value and Performance Management

Paragraph 1.4 – reflects the fact that although we no longer employ Invesco as an external investment manager we may wish to look at re-engaging such managers in the future.

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.

Paragraph 1.1 – addition of Minimum Revenue Provision Policy Statement to those documents requiring the approval of full Council.

Paragraphs 1.3 & 1.4 – removal of references to Responsible Finance Officer as the Head of Finance now carries out this role whereas previously the Responsible Finance Officer was a separate post.

Paragraph 1.3 – Following the removal of the reference to the Responsible Finance Officer, all decisions affecting long term investments exceeding £2.5m will be taken by Treasury staff in consultation with the the Head of Finance.

Paragraph 4.1 – reflects the current use of the "Sungard" Portal to place investments with Money Market Funds. This is a form of direct dealing which may be extended to Money Market fixed term investments during 2011/12.

Paragraph 5.1 – updates counterparties for name changes, Santander from Abbey National and Lloyds Banking Group from HBOS.

TMP11 Use of External Service Providers

Paragraph 3.2 – updates the TMP with the latest details of the Council's banking contract.

2 INTEREST RATE FORECASTS FOR 2011/12

2.1 The ability to forecast the movement of interest rates is fundamental to successful investment and borrowing strategies. The Council's advisers, Sector Treasury Services, provide information which is compiled by experienced economists who have a proven track record. Their latest view on both short and long term rates is shown below and has been used to formulate the investment interest estimates used in the budget report elsewhere on this agenda.

2.2

(Q/E = quarter end)

Q/E	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012	June 2012	Sept 2012	Dec 2012	Mar 2013
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%
5yr PWLB Rate	3.41%	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%
10yr PWLB Rate	4.64%	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%
25yr PWLB Rate	5.29%	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%
50yr PWLB Rate	5.21%	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%

2.3 The Monetary Policy Committee (MPC) utilises Bank Rate as one of its tools to control inflation in the economy and meet its target rate of 2% Consumer Prices Inflation (CPI) . CPI has remained high during 2010, the latest figure being 3.7% in December with RPI at 4.8%. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years. The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectations that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.8% and the November Inflation Report revising the forecast for short term inflation sharply upwards. Therefore, our Treasury Consultants' view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

2.3 It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in our major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

2.4 Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

2.5 As a counterpoint to Sectors interest rate view, Capital Economics take a more pessimistic view of any recovery and is not forecasting Bank Rate to rise from its current 0.50% throughout 2011 and 2012 whereas UBS' view is for Bank Rate to rise to 0.75% one quarter earlier than Sector's forecast. The HM Treasury Survey of Economic Forecasts supports the view that Bank Rate will begin to rise towards the end of 2011 although the actual point at which it begins to rise is somewhat uncertain at present.

3 CAPITAL BORROWING AND CAPITAL PROGRAMME FINANCING STRATEGY

3.1 The Council is able to finance its capital programme in the following ways:-

a) By the use of Prudential Borrowing. Currently It is anticipated that there will be no need to borrow in order to finance the 2011/12 capital programme

b) From Usable capital receipts. With regard to the General Fund capital programme it is anticipated that there will be no significant capital receipts generated in 2011/12 to finance capital expenditure and any financing from capital receipts will be minimal and by way of drawing down receipts brought forward from previous years. The Housing Investment Programme is not anticipating the sale of any council houses during 2011/12 and any financing from capital receipts will also be by way of receipts in hand from previous years.

c) From revenue or reserves.

d) From external contributions and grants . With regard to the General Fund capital programme, it is anticipated that a £30,000 contribution from the DCLG will be used on the Cubbington Flood Alleviation Partnership Scheme in 2011/12. With regard to the Housing Investment Programme it is expected that grants and contributions amounting to £1,534,900 will be utilised to finance General Fund Housing, mainly RSL projects and Improvement Grants

3.2 The Council's proposed 2011/12 General Fund capital programme amounts to £763,200. It is currently intended to finance this as follows:-

a) Contributions from revenue and reserves £703,000
b) External contributions and grants amounting to £30,000
c) Capital Receipts £30,200

3.3 The Council's 2011/12 expected Housing Investment Programme amounts to £11,647,900 and currently will be financed as follows:-

a) £1,534,900 capital grants and contributions
b) £885,500 capital receipts from the sale of council houses in previous years
c) £9,227,500 from revenue and reserves

4. TEMPORARY BORROWING

4.1 The Council will continue to engage in short term borrowing (up to 364 days) when necessary in order to finance temporary cash deficits, however by managing our cash flow effectively these will be kept to a minimum. In each case, wherever possible, the loan will be taken out for periods of less than 7 days in order to minimise the interest payable.

5. TREASURY LIMITS AND PRUDENTIAL INDICATORS FOR 2011/12 TO 2013/14

5.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Authorised

Limit". The Council must have regard to the Prudential Code when setting its Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax / rent levels is acceptable. Whilst termed an Authorised Limit, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

5.2 The Authorised Limits to be recommended to Council by the Executive were included in the Budget report presented to the Executive on 9th February and were ratified by the Council at its meeting on 23th February. They are also displayed in the table below :-

Year	Authorised Limit for Borrowing	Authorised Limit for Other Long Term Liabilities	Authorised Limit for External Debt
2011/12	£9,850,000	£500,000	£10,350,000
2012/13	£9,100,000	£500,000	£9,600,000
2013/14	£9,100,000	£500,000	£9,600,000

5.3 The Prudential Indicators required by the code are explained in more detail in the report on the budget and those relevant to an integrated treasury management strategy are reproduced below:-

That the Council has adopted the CIPFA Treasury Management Code of Practice which it has done (see recommendation 2.2 (d).

Capital Financing Requirement

Year	General Fund	HRA	Overall
2011/12	-£1,326,896	-£370,204	-£1,697,100
2012/13	-£1,326,896	-£370,204	-£1,697,100
2013/14	-£1,326,896	-£370,204	-£1,697,100

Incremental Impact on Council Tax / Housing Rents

Year	Council Tax	Housing Rent
2011/12	£0.78	£0.00
2012/13	£1.61	£0.00
2013/14	£2.31	£0.00

Operational Boundary for External Debt

Year	Operational Boundary for Borrowing	Operational Boundary for Other Long Term Liabilities	Operational Boundary for external debt
2011/12	£1,850,000	£0	£1,850,000
2012/13	£1,100,000	£0	£1,100,000
2013/14	£1,100,000	£0	£1,100,000

In addition certain indicators that used to be part of the Prudential Code are now part of the Treasury Management Code of Practice and are shown below :-

Upper limits to fixed interest rate and variable interest rate exposures

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2011/12	100%	30%
2012/13	100%	30%
2013/14	100%	30%

Upper and Lower Limits respectively for the Maturity Structure of Borrowing

Period	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	37.50%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than 364 days

The total maximum sum that can be invested for more than 364 days is 40% of the core investment portfolio subject to a maximum of £9 million at any one time.

5.4 During 2011/12 the position with regard to the impact of Housing Self Financing and the Local Authority Mortgage Rescue Scheme on treasury management will become clearer and the Prudential Indicators will need to be revised to allow for this impact e.g. increased borrowing.

6. ANNUAL INVESTMENT STRATEGY.

6.1 The Council is required to have regard to investment strategy requirements in the CIPFA Treasury Management Code and to produce an Annual Investment Strategy. Section 15(1) of the 2003 Local Government Act requires councils to have regard to such guidance as the Secretary of State may issue. Guidance was issued in 2004 and has subsequently been updated but with no major changes over and above that contained in the revised Prudential Code. The general policy objective is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. The Annual Investment Strategy must be drawn up before the commencement of the year to which it relates and be approved by the full Council. The Strategy can be amended at any time and it must be made available to the public.

6.2 The responsibility for risk management and control lies within the Council and the Strategy should set out the local authority's policies for giving priority to the security and liquidity of its investments, rather than to the yield. The guidance requires that investments should be classified as either of Specified or Non Specified Investments. Specified Investments are those that offer high security and high liquidity typically with another local authority, the UK Government or a body or investment scheme which has been awarded a high credit rating by one of the three main credit rating agencies. The Annual Investment Strategy must state how a high credit rating is to be defined and how frequently credit ratings are to be monitored together with what action is to be taken if a rating should change. All Specified Investments must be in sterling and with a maturity of no more than a year.

6.3 All other investments not meeting the criteria of a Specified Investment are to be regarded as Non Specified Investments and the Annual Investment Strategy is to set out procedures for determining what categories of investments may prudently be used and then also to identify what those categories actually are. The Strategy must also state the maximum amounts which can be held in each identified category at any one time during the financial year (by reference to a sum of money or a percentage of the Council's overall investments).

6.4 The Annual Investment Strategy must also set out procedures for determining the maximum periods for which funds may prudently be committed and also state the minimum amount during the financial year which is to held in short term investments. The latter is by reference to a sum of money or a percentage of the Councils overall investments.

6.5 The Council's Annual Investment Strategy for 2011/12 is contained within Appendix C.

7. BEST VALUE

7.1 In the Treasury Management Strategy Plan for 2010/11 reference was made to participating in the Council's Treasury Consultants new investment risk management benchmarking service in order to provide benchmarks against which the in house function could monitor its performance. Unfortunately the introduction of the new service was delayed and is only now getting off the ground. Therefore, in order to provide benchmarks for the 2010/11 performance the Council will continue its membership of the C.I.P.F.A. Treasury Management Benchmarking Club for another year. With regard to 2011/12 it is likely that the Council will utilise Sector's investment risk management benchmarking service and model investment portfolio to benchmark its performance although if this proves not to be satisfactory consideration will be given to continuing membership of the C.I.P.F.A.

Treasury Management Benchmarking Club.

7.2 The internal treasury function will also seek to achieve an average rate of return on its Money Market investments of 1/16th% below the LIBID (London Inter Bank Bid Rate) average for comparable investment periods (e.g. up to 7 day, 1 to 3 months, 3 to 6 months and over 6 months).

7.3 Should the Council employ external investment agents during 2011/12 suitable performance indicators will be agreed with the agents similar to that which operated under the previous Invesco agreement e.g. the fund will be required to outperform the Financial Times 7 day LIBID rate compounded weekly with a target return of 110% of the benchmark over a 3 year rolling period.

7.4 The Council's performance for the year is reported in the Annual Treasury Management report which is presented to the Finance and Audit Scrutiny Committee after the end of the year to which it relates.

8. THE EURO

8.1 It is very unlikely that any moves towards adopting the Euro will be made during 2011/12 but the Treasury Management function will keep a watching brief on the subject.

9. EXTERNAL TREASURY MANAGEMENT ADVISERS

9.1 The Council employs Sector Treasury Services as its Treasury Management advisers and they are in the second year of their current three year contract which has an option to be extended for a further two years. Sector recently acquired the Butlers Treasury Management Consultancy business and it is anticipated that this will further strengthen the range of services provided by Sector.

10. BANKING SERVICES

10.1 The Council currently employs HSBC Bank to provide its banking services and . the current contract expires on 1st March 2015.

11. OTHER ISSUES

11.1 The Council's treasury consultants, in conjunction with a number of other authorities , have devised a scheme whereby a Local Authority will guarantee to the lending bank a proportion of a borrowers mortgage against default. At the time of writing this report, it is expected that the scheme will launch in February 2011 and is aimed at enabling people who are capable of affording the monthly repayments on a mortgage but who are unable to provide the increased deposits that mortgage lenders are currently demanding following the "credit crunch" to enter the housing market and thus free up properties for social housing purposes. The Council has joined the pilot scheme and further developments of this scheme will be the subject of a future report to the Executive. Should we participate in the final scheme, this will involve the making of an advance to the bank equal to the guarantee in total which for our purposes will be treated as capital expenditure and will be accounted for as a Long Term Debtor in much the same way as the few remaining Sale of Council House mortgages are. The bank giving the mortgage will pay interest on this advance at an attractive interest rate. The advance will be the security against which any defaults will be charged and the Treasury Management function will be advising on the treasury management implications of the scheme.

11.2 The current HRA Subsidy system will be replaced by a new self financing regime with effect from 1st April 2012. Based on current knowledge this will result in this Council taking on around £130m of borrowings which will have a significant impact on its treasury management operations particularly with regard to debt management. The Treasury Management function will ensure that it is kept fully aware of developments in this field during 2011/12 and has begun the process by ensuring that the current contract for our Treasury Management consultancy includes provision for specific advice on debt management which will be required in order to ensure that the Council manages the debt portfolio effectively and efficiently. Once the position is clearer with regard to the level of debt to be taken on it will be necessary to revise the relevant Prudential Indicators and have them approved by Council in due course.

APPENDIX C 2011/12 ANNUAL INVESTMENT STRATEGY

1. BACKGROUND

1.1 This Council has regard to the Governments Guidance on Local Government Investments and CIPFA's updated Treasury Management in Public Services Code of Practice. The guidance states that an Annual Investment Strategy must be produced in advance of the year to which it relates.

2. INVESTMENTS

2.1 This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of Specified and Non Specified Investments. These are listed in the tables overleaf.

2.2 Specified investments are defined as those with a high credit rating, which for this Council is a Fitch sovereign rating at least equal to that of the United Kingdom at the point at which the investment was taken out, at least F1 short term, A+ long term, Individual Rating B/C or failing that a state support indicator of 1 or 2. The Council will also have regard to the ratings published by the other 2 main agencies, Moody's and Standard & Poors together with any ratings watch notices issued by the 3 agencies as well as articles in the Financial press and market data. In addition to credit ratings the Council will also use Credit Default Swap data to determine the suitability of investing with counterparties. Credit Default Swaps (CDS) are a form of "insurance premium" against defaulting taken out by investors when making investments and if the Market perceives problems with the counterparty then the margin on the CDS will widen (i.e. the insurance premium will increase) thus providing warnings for future investors with that counterparty that it might have problems repaying their investment. The Council will monitor the CDS's on the counterparties within its lending list and if there are significant movements on a counterparty such as it moves out of a pre-determined range which will be determined with the aid of the Councils Treasury Consultants then that counterparty will be removed from the list until such time as it moves back within range. An explanation of credit rating terms appears in Appendix E. The investment must be for a maximum of 364 days.

Although the Council does not expect to use external investment agents in 2011/12, they are included in the circumstance of use column in the tables overleaf to allow for their possible use should it be appropriate to do so.

Specified Investments					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Debt Management Agency Deposit	Yes	UK Government Backed	In House	£6m	364 days
Deposits with UK Government , Nationalised Industries, Public Corporations or other Local Authorities	Yes	High security e.g investment secured on all revenues of Local Authority	In House and by external fund manager	£6m	364 days
Deposits with Banks with maturities up to 1 year (inc. Business Call ,Reserve Accounts and Special Tranches) and including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Individual B/C (if less than B/C State Support indicator of 1 or 2)	In House and by external fund manager	Part or fully nationalised £6m Private sector £5m	364 days in aggregate
Deposits with Building Societies including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Long Term A+ and Short term F1 Less than A+ Long Term but with Short term rating of F1 or above	In house and by external fund manager	£4m £2m	364 days in aggregate

Specified Investments (continued)					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Money Market Funds	Yes	Either Standard & Poors AAAm or Moody's AAA and volatility rating MR1+ or Fitch AAA and volatility rating VR1+	In house and by external fund manager	£6m	Not defined as subject to cash flow requirements
Certificates of Deposit issued by Banks and Building Societies	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Individual B/C (if less than B/C State Support indicator of 1 or 2)	In house buy and hold and External fund manager	Part or fully nationalised £6m Private sector £5m	364 days
Gilt Edged Securities	Yes	UK Govt. backed	In house buy and hold and External fund manager	£6m	Not defined
Eligible Bank Bills	Yes	Minimum credit rating as determined by external fund manager	External fund manager only	£5m	364 days
Treasury Bills	Yes	UK Govt. backed	External fund manager only	£6m	Not defined
Bonds issued by Supranational Institutions or Multi Lateral Development Banks	Yes	AAA or government guaranteed	In house buy and hold and External fund manager	£5m	Not defined

Specifed Investments (continued)					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Sterling Securities guaranteed by HM Government	Yes	UK Govt. backed	External fund manager only	£6m	Not defined

2.3 As a means of further diversifying risk whilst obtaining a reasonable return for cash flow derived investments, the Council uses the SunGard Money Market Funds Portal which will enable it to open further Money Market Funds as necessary and to be able to see on a daily basis before deciding with whom to invest which funds are offering the best rates.

Non – Specified Investments					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Deposits with unrated building societies	yes	Limited to those within the top 20 ranked by value.	In house	£1 million	3 months
Deposits with banks greater than 1 year (including any forward dealing)	No	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Individual B/C (if less than B/C State Support indicator of 1 or 2)	In house after consultation with Treasury Advisers External fund manager	£9 million (in total). Individual limit £5m per specified investments for private sector	2 years
Deposits with building societies greater than 1 year (including any forward dealing)	No	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+	In house after consultation with Treasury Advisers External fund manager	As above - £9 million (in total). Individual limit £1m	2 years

2.4 It is necessary to outline the reasons why the Council would use non specified investments and also the risks involved. The use of unrated building societies alongside Business Reserve and Call Accounts and Money Market Funds forms a useful tool for investing relatively small amounts of money for short periods of time (up to 3 months) and obtaining a decent return on the investment. There is of course a risk that the Building Society may fail during the maximum 3 month duration of an investment but this is not considered likely for any unrated society in the top 20 as it is likely that a larger society would absorb them In practice. As these deposits are of a cash flow nature, the duration of the majority of individual deposits is likely to be around 1 to 2 months which lessens the risk still further. With regard to deposits for more than one year, the advantage from a treasury management point of view is that there is a known rate of return over the period that the monies are invested which aids forward planning. There is however the increased risk due to the longer time span that a) the institution fails or b) interest rates rise in the meantime. The current limit for investments longer than 364 days is 40% of the core investment portfolio subject to a maximum of £9 million at any one time. No investments for more than 1 year will be made without the advice of our Treasury Consultants on the likely movement of interest rates over the period of the proposed investment and any investments over 364 days with building societies will be limited to £1m per counterparty.

3. INVESTMENT OBJECTIVES

3.1 All investments will be in sterling. The Council's investment priorities are the security and liquidity of its investments. The Council's objective will be to maximise the return whilst safeguarding the capital sum and avoiding cash flow problems. The Council will not engage in borrowing for purely investment purposes.

4. SECURITY OF CAPITAL

4.1 The Council relies on credit ratings published by Fitch Ratings which are supplied to it by its Treasury Advisers, whilst not the principal credit rating service used by the Council, attention will also be paid to credit ratings published by Moody's Investor Services and Standard & Poor's which are also supplied by Sector in order to broaden the sources of intelligence from which the Council gathers opinions on the performance of its investment counterparties. These ratings are used to establish the credit quality of counterparties and investment schemes. These institutions also issue regular ratings watch bulletins and where these are negative and affect one of our counterparties this will be taken into account when deciding whether or not to place future investments with them. The Council has also determined the minimum long term (more than 1 year), short term (1 year or less) and other credit ratings it deems to be high for each category of investment and these are as shown in paragraph 2.2 above.

4.2 Individual credit ratings will be revised as and when changes are notified to the Council by its Treasury Advisers. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria then the counterparty / investment vehicle will no longer be used with immediate effect. This also applies to investments placed by fund managers. Similarly if a counterparty is upgraded so that it meets the Council's minimum credit rating requirements then it will be added to the Council's counterparty list.

4.3 The Council will also use the Credit Default Swap (CDS) information supplied by its Treasury Consultants to determine levels of investments with its counterparties once they have been selected using the criteria set out in 2.2 above. Counterparties with an in range CDS (as determined by our consultants) will be invested in as per the limits defined for that particular category of counterparty . Those counterparties with a monitoring status will not be invested in without first referring to our consultants for advice and those counterparties with an out of range CDS will not be invested in until their CDS returns to within range.

5. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

5.1 Based on its cash flow forecasts, the Council anticipates that its investments in 2011/12 on average will be in the region of £34.6 million**.**

5.2 The maximum percentage of its core investments that the Council will hold in long term investments (365 days or over) is 40%. It follows therefore that the minimum percentage of its overall investments that the Council will hold in short term investments (364 days or less) is 60% . Having regard to the Council's likely cash flows and levels of funds available for investment the amount available for long term investment will be a maximum of 40% of the core investment portfolio subject to a total of £9 million at any one time in line with the proposed Prudential Indicator covering this issue. These limits will apply jointly to the in house team and any fund manager so that the overall ceilings of 40% and £9 million are not breached.

6. INVESTMENT STRATEGY

6.1 The Council will continue to invest cash flow driven money to known dates where large debts such as precepts, NNDR etc. have to be paid out. Based on the cash flow experienced to date in 2010/11 it is unlikely that this will result in the average length of an investment being more than 2 months in 2011/12. Core investments (i.e. investments not needed for payment of debts) will continue to be invested in the best part of the market based on the advice issued by our Treasury Advisers.

6.2 The 2011/12 interest rate outlook is for Bank Rate to rise from 0.50% at the beginning of the year to 0.75% by the end of December 2011 and 1% by the end of March 2012. In order to take advantage of this rising interest rate environment, depending on when they mature the Council will seek to place its core investments in vehicles which pay the best possible rates whilst maintaining liquidity so that they can be re-invested as rates rise through the latter part of the year. If felt appropriate, the in house function may make use of C.D's and Gilts through a Custodian. The use of these instruments will be on the advice of our Treasury Consultants and is likely to be on a buy and hold to maturity basis in order to lock in certainty of return.

6.3 The recent banking crisis has heightened interest in high quality counterparty security. Because of the relatively small size of deposit that the Council makes, typically £1- £2 million there is a significant exposure to the Building Society sector and specifically lesser rated or unrated societies in the top 20 by asset value. Whilst this is not necessarily a bad thing for the reasons outlined in paragraph 2.4 above, it is nonetheless desirable that the Council spreads its investments as best as possible in order to protect the security of those investments. Therefore it is proposed to increase various counterparty limits as follows;-

a) For all investments which are with the UK Government or are backed by the UK Government, specifically:-

   Debt Management Agency Deposits
   Deposits with National Industries, Public Corporations or other Local Authorities
   Deposits including Certificates of Deposits with part or fully nationalised banks whilst they remain in public ownership
   Gilt Edged Securities
   Treasury Bills
   Sterling Securities

   An increase of £1 million to a maximum of £6 million per counterparty

b) For all investments with Money Market Funds which have a minimum credit rating as outlined in the Specified Investment table above an increase of £1 million to £6 million per Fund.

6.4 The major use of lesser rated or non rated Building Societies relates to cash flow investments. The increase in the Money Market Funds and part or fully nationalised banks limits should enable us to invest more in these areas thus improving the security risk albeit possibly at the expense of investment returns.

6.5 Although once investment rates begin to rise they are likely to lag behind the Money Markets and Bank Rate tracking or beating accounts, it is expected that high performing triple A rated Money Market Funds will continue to be used in instances where the amounts of cash available for investment or the period of time before the cash is required make the Money Markets unattractive and the Bank Rate tracking or beating accounts have reached their counterparty limits.

6.6 Depending on the exact timing of the predicted Bank Rate changes it is expected that the overall portfolio will achieve a 1.32% return for 2011/12.

7. EXTERNAL CASH FUND MANAGEMENT

7.1 The performance of fund managers will be kept under review using our Treasury Consultants and should it be felt appropriate to do so then the Council may engage a fund manager in order to enhance returns and spread risk. The appointment process will be handled in conjunction with our Treasury Consultants in order to ensure that the Council secures best value.

8. END OF YEAR INVESTMENT REPORT

8.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report and will also report investment activity on a quarterly basis. In both instances the report will be submitted to the Finance and Audit Scrutiny Committee which is the body charged with overseeing Treasury Management on behalf of the Council.

APPENDIX D

MINIMUM REVENUE PROVISION POLICY STATEMENT

1. BACKGROUND

1.1 Capital expenditure can be financed in a number of ways, not least of which is through borrowing and credit arrangements such as finance leases. The use of these 2 methods involves the Council in setting aside resources each year in order to eventually pay off the liability for example a maturing PWLB loan. Until recently, this set aside was prescribed nationally through Statutory regulations and was set at 4% per annum of the General Fund Capital Financing requirement (CFR). There was no similar requirement within the Housing Revenue Account although Council's could make voluntary provision if they so wished. The statutory regulations were superseded by statutory guidance issued under Statutory Instrument 2008 no.414 which says that " A local authority shall determine for the current financial year an amount of minimum revenue provision (MRP) that it considers prudent" .Where a Council's CFR at the end of the preceding year is nil or negative there is no requirement to charge MRP.

1.2 It is a requirement of the statutory guidance that a statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which it relates. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. THE FOUR MAIN OPTIONS

Option 1 – Regulatory Method

2.1 This option is the old statutory method of 4% of the CFR and which has to be used in order to calculate MRP on all debt still outstanding at 1/4/08 and it can also be used to calculate MRP on debt incurred under the new system but which is supported through the annual SCE allocation from DCLG.

Option 2 – Capital Financing Requirement Method.

2.2 This is a variation of option 1 and is based upon 4% of the CFR with certain changes and is appropriate where the borrowing is not linked to a particular asset.

Option 3 – Asset Life Method.

2.3 Under this option, it is intended that MRP should be spread over the useful life of the asset financed by the borrowing or credit arrangement. In future, where borrowing is utilised to finance specific assets it is likely that the period of the loan will match the expected life of the asset and therefore, under this method the annual charge to the Council's accounts is directly related to building up the provision required to pay off the loan when it matures which under options 1 and 2 is not possible .

2.4 There are 2 methods of calculating the annual charge under this option a) equal annual instalments or b) by the annuity method where annual payments gradually increase during the life of the asset.

Option 4 – Depreciation Method.

2.5 This is a variation on option 4 using the method of depreciation attached to the asset e.g. straight line where depreciation is charged in equal instalments over the estimated life and the reducing balance method where depreciation is greater in the early years of an assets life and which is most appropriate for short lived assets e.g. vehicles. In this Council's case assets are depreciated using the straight line method and so option 4 is not materially different from option 3.

3. RECOMMENDATION FOR 2011/2012.

3.1 It is recommended that for any long term borrowing which is incurred in 2011/2012, the following methods of Minimum Revenue Provision be adopted:-

For borrowing which cannot be linked to a particular asset – Option 2.
For borrowing linked to a particular asset – Option 3 based on the annuity method.

3.2 Although not strictly part of Minimum Revenue Provision requirements, it is also recommended that for internal borrowing (i.e. capital expenditure financed from reserves) Option 3 based on the annuity method be adopted as a means of replenishing those reserves which financed the capital expenditure.

APPENDIX E

AN EXPLANATION OF CREDIT RATING TERMS

1. Sovereign Credit Rating

1.1 Fitch assigns a long term credit rating to the country in which the financial institution being rated is domiciled. This credit rating assesses the economic health of the country including its ability to service its debt and also its capacity to support the banking system in that country should financial support be required. The assessment follows the normal long term rating scale, the highest rating being AAA with anything below BBB being non investment grade. The UK has a AAA rating and the Council's policy is to invest only in institutions where the state in which they are domiciled has at least the same sovereign rating as the UK at the point in time when the investment was placed.

2. International Long - Term Credit Ratings

2.1 Long - term credit ratings are an attempt to assess the ongoing stability of an institutions prospective financial condition given such factors as sensitivity to fluctuations in market conditions and the capacity for maintaining profitability or absorbing losses in a difficult operating environment. Investment grade ratings range from BBB to AAA.

2.2 The minimum rating that WDC will use is A+ which is mid range in the ratings referred to above. A ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. + is used to indicate a better than average status within the category.

3. International Short - Term Credit Ratings

3.1 A short - term rating has a timescale of less than 12 months for most obligations and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

3.2 The minimum rating that WDC will use is F1. This indicates the strongest capacity for timely payment of financial commitments. It may have a + added to it to denote any exceptionally strong credit feature.

4. Individual Ratings

4.1 These attempt to assess how an institution would be viewed if it were entirely independent and could not rely on support from state authorities or its owners. Thus, individual ratings permit an evaluation separate from any consideration of outside support.

4.2 With regard to institutions that have not received Government help following the 2008 banking crisis, the minimum rating that WDC will use is B/C. B denotes an institution with a sound risks profile and without significant problems. The institution's performance has generally been in line with or better than its peers. C denotes an institution which has an adequate risks profile but possesses one or more troublesome aspects, giving rise to the possibility of risk developing, or which has generally failed to perform in line with its peers. B/C is a gradation between the two which ensures that any institution invested in by WDC has at least an adequate risks profile without significant risk developing.

4.3 Following the 2008 banking crisis, a number of institutions e.g. Lloyds Banking Group, Royal Bank of Scotland have been partly nationalised and to recognise this fact, Fitch has lowered these banks individual ratings to a level at which we would not invest with them, however their debts are effectively guaranteed by the UK Government so they have a State Support rating of 1 as well as high long and short term ratings which satisfies our credit rating criteria and they remain on our list. Should the state guarantee be removed for any reason e.g. the bank is de-nationalised then a fresh assessment of the individual rating will follow and should the revised rating be less that B/C and the state support rating be less than 1 or 2 then the bank will not remain on our list.

5. State Support Indicator

5.1 This indicator gives an indication as to how much state support a bank could expect to receive if it were to run into difficulties. The range is from 1 to 5 with 1 being the highest degree of support and 5 the lowest. 1 is assigned only to banks whose debts are formally guaranteed by the state or whose failure would seriously jeopardise the banking system of the country concerned (e.g. Lloyds Banking Group or Barclays Bank in the U.K.).

6. <u>Credit Ratings of WDC Counterparties</u>

6.1 The following table overleaf indicates how the counterparties (excluding Money Market Funds) used in recent times by the Council and which have a credit rating from Fitch fit the credit rating criteria outlined above and also indicates the investment limits applicable to that counterparty. It should be noted that all the Building Societies in the list are in the Top 20 ranked by asset value and with the exception of Coventry and Nationwide they have been treated as being effectively non rated as their credit ratings do not meet our minimum standard for building societies. Therefore the investments with these societies have been limited to £1m for a maximum of three months. Not included in this table are the unrated building societies also in the top 20 which are also limited to a maximum of £1m for 3 months. In the case of these building societies, not having a credit rating is not an indication of financial weakness rather it is a reflection of their view that they do not need to be credit rated given their size and the fact that they attract deposits from local savers rather than from other financial institutions who look at credit ratings in order to determine where to invest.

Counterparty	Long Term	Short Term	Individual	State Support	Limit (£)
Barclays Bank	AA-	F1+	B	1	5 million
Lloyds Banking Group	AA-	F1+	C	1	5 million
Coventry BS	A	F1	B	5	2 million
Clydesdale Bank	AA-	F1+	C	1	5 million
Santander	AA-	F1+	B	1	5 million
Nationwide BS	AA-	F1+	B	1	4 million
Royal Bank of Scotland	AA-	F1+	C/D	1	5 million
West Bromwich BS	BBB-	F3	C/D	5	1 million
Principality BS	BBB+	F2	C	5	1 million
Newcastle BS	BBB-	F3	C/D	5	1 million
Norwich & Peterborough BS	BBB+	F2	C	5	1 million
Skipton BS	A-	F2	B/C	5	1 million

APPENDIX F TREASURY MANAGEMENT SCHEME OF DELEGATION

Reproduced here is the part of the Council's Treasury Management Practice number 5 which deals with delegation issues:-

1. **Delegation.**

1.1 The Executive has delegated powers in respect of all investment and borrowing matters with the exception of the setting of certain Prudential Indicators including the Authorised Limit and the approval of the Annual Investment Strategy and Minimum Revenue Provision Policy Statement which require the resolution of full Council.

1.2 The Head of Finance has delegated powers to take all executive decisions on borrowing, investment , financing and banking and all activities in this respect will be carried out by him or his staff.

1.3 Any decisions with regard to individual long term investments will be taken by the Head of Finance or by staff to whom he has delegated this power. Decisions on investments exceeding £2.5m will be taken by Treasury staff in consultation with the Head of Finance.

1.4 Any decisions with regard to long term borrowing will be taken by the Head of Finance.

1.5 With regard to short term investments and borrowing arising out of the daily cash flows and also the management of the Council's core cash investments, the Head of Finance has delegated his power to borrow or invest to members of his staff. All daily money market dealing transactions must be carried out by one of the following staff:-

Principal Accountant (Capital and Treasury Management) (The Treasury Manager)
Assistant Accountant (Capital and Treasury Management)

In their absence cover will be provided by other suitably trained Financial Services Division staff.

1.6 Each of these officers will have no specific upper dealing limit subject to the overall limit per counterparty as defined in TMP 1 above. If there is any doubt whatsoever as to the legality or appropriateness of a possible transaction, it must be referred to either the Head of Finance or in his absence the Strategic Finance Manager or Financial Services Manager for a decision to be made.

1.7 In the event that the Council employs External Investment Agents, the Head of Finance has also delegated day to day dealings with them to the Principal Accountant (Capital and Treasury Management). The Assistant Accountant (

Capital and Treasury Management) will maintain the records of investments placed through the investment agents.

1.8 The Head of Finance has also delegated day to day responsibility for management of the Council's main bank accounts to the Principal Accountant (Capital and Treasury Management). Such delegation to cover issues such as opening/closing bank accounts, changing methods of money transmission and negotiating changes to the current banking services contract. However this delegation does not extend to the acceptance of banking tenders which will remain the responsibility of the Head of Finance.

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APPENDIX G THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

1. The S151 Officer (or staff delegated by him) is responsible for:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

APPENDIX H

TMP1 Risk management.

1. **Liquidity Risk.**

1.1 It will be the function of the treasury management staff to calculate from cash flow forecasts the extent of any surplus cash available for investment bearing in mind the need to ensure that the Council's liabilities are adequately covered without resorting to excessive temporary borrowing.

2. Credit and Counterparty Risk.

2.1 The Council invests its cash surpluses in two ways a) through external investment agents if employed and b) through daily dealings by its treasury management staff. Investments are to be restricted to those organisations or investment vehicles as follows:-

a) Any Bank with a short term credit rating from Fitch Ratings (The main UK credit rating agency) of F1 or above and with a minimum long term credit rating of A+. The bank must also have an individual rating of no lower than B/C or failing that, a state support indicator of 1 or 2 and the country in which the bank resides must have a sovereign rating at least equal to the UK's at the time that the investment was taken out .

b) Any category A Building Society. That is , any Building Society with a country sovereign rating of at least equal to the UK's at the time that the investment was taken out, a minimum long term credit rating of A+ and a short term credit rating from Fitch Ratings of F1 or above.

c) Any category B Building Society. That is, any Building Society with a country sovereign rating of at least equal to the UK's at the time that the investment was taken out, a long term credit rating of less than A+ but with a minimum short term rating of F1.

d) Any category C Building Society. That is, any building society not in categories A or B but in the top 20 ranked by asset value.

e) Nationalised Industries and Public Corporations.

f) Any Local Authority (including Police/Fire Authorities) in Great Britain and Northern Ireland at the discretion of the Head of Finance.

g) The UK Government

h) Supranational Institutions and Multi Lateral Development Banks with a credit rating of triple A or are Government backed

i) Triple A rated Money Market Funds with volatility ratings of m (Standard & Poors), MR1+ (Moodys) or VR1+ (Fitch)

j) The Governments Debt Management Account Facility

2.2 The maximum limit for investments with any one counterparty will be as follows:-

Any institution in paragraph 2.1(a) which is owned or part owned by the UK Government £6 million
Any institution as defined in paragraph 2.1(a) not in public ownership £5 million
Any institution as defined in paragraph 2.1(e,f,g,j,i) above £6 million
Any institution as defined in paragraph 2.(h) above £5 million
Any category A building society (2.1(b) above) £4 million
Any category B building society (2.1.(c) above) £2 million
Any Category C building society (2.1.(d) above) £1 million

In addition , no more than 40% of the core investment portfolio (included in this definition is any fund managed externally) subject to a maximum of £9 million can be invested for more than 364 days (maximum of 2 years) and in the case of any institution as defined in paragraphs 2.1(a,,e,f,g,h,I,j) is limited to the maxima outlined in the list above. The limit for any category A building society is £1million.No investments of cash flow surpluses can be for a period of more than 364 days. Investments with a Category B Building Society are limited to a maximum of 364 days whilst Category C Building Society investments are limited to a maximum of three months.

3. **Fraud, Error, Corruption and Contingency Risk.**

3.1 Internal Audit will report annually on the treasury function as part of their normal audit programme.

3.2 An up to date written or computer record of all transactions, limits etc. must be maintained by the treasury function and adequate back up records in the form of written documentation or electronic storage kept.

3.3 The treasury management function must maintain an up to date treasury systems document to enable the daily treasury management procedures to be carried out in the absence of the regular staff.

3.4 The Chief Executive and Responsible Financial Officer must include arrangements for the proper and continuous fulfilment of the treasury management function in accordance with the policy statement in any emergency operational procedures of the Council.

3.5 The Council must ensure that it maintains adequate fidelity guarantee insurance cover.

TMP2 Best value and performance management

1.1 The treasury management function (including its external investment agents) will be subject to performance measurement according to the criteria outlined in the annual strategy document.

1.2 The performance of the brokers used by the authority will be monitored regularly and reviewed annually to ensure that investments placed through them have achieved competitive market rates.

1.3 The Council's banking service requirements will be tendered at least every 5 years and the process of evaluation must have regard to quality as well as the levels of fees and overdrafts charged.

1.4 The Council may use external investment agents and will appoint them by competitive tender and will agree a cash management policy with them.

1.5 The Council will employ external treasury management advisers and the appointment will be made by competitive tender every three years, subject to any extension of contract as permitted by the original specification upon which the service is tendered for.

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

1. **Delegation.**

1.1 The Executive has delegated powers in respect of all investment and borrowing matters with the exception of the setting of certain Prudential Indicators including the Authorised Limit and the approval of the Annual Investment Strategy and Minimum Revenue Provision Policy Statement which require the resolution of full Council.

1.2 The Head of Finance has delegated powers to take all executive decisions on borrowing, investment , financing and banking and all activities in this respect will be carried out by him or his staff.

1.3 Any decisions with regard to individual long term investments will be taken by the Head of Finance or by staff to whom he has delegated this power. Decisions on investments exceeding £2.5m will be taken by Treasury staff in consultation with the Head of Finance.

1.4 Any decisions with regard to long term borrowing will be taken by the Head of Finance.

1.5 With regard to short term investments and borrowing arising out of the daily cash flows and also the management of the Council's core cash investments, the Head of Finance has delegated his power to borrow or invest to members of his staff. All daily money market dealing transactions must be carried out by one of the following staff:-

Principal Accountant (Capital and Treasury Management) (The Treasury Manager)
Assistant Accountant (Capital and Treasury Management)

In their absence cover will be provided by other suitably trained Financial Services Division staff.

1.6 Each of these officers will have no specific upper dealing limit subject to the overall limit per counterparty as defined in TMP 1 above. If there is any doubt whatsoever as to the legality or appropriateness of a possible transaction, it must be referred to either the Head of Finance or in his absence the Strategic Finance Manager or Financial Services Manager for a decision to be made.

1.7 In the event that the Council employs External Investment Agents, the Head of Finance has also delegated day to day dealings with them to the Principal Accountant (Capital and Treasury Management). The Assistant Accountant (

Capital and Treasury Management) will maintain the records of investments placed through the investment agents.

1.8 The Head of Finance has also delegated day to day responsibility for management of the Council's main bank accounts to the Principal Accountant (Capital and Treasury Management). Such delegation to cover issues such as opening/closing bank accounts, changing methods of money transmission and negotiating changes to the current banking services contract. However this delegation does not extend to the acceptance of banking tenders which will remain the responsibility of the Head of Finance.

2. Compliance.

2.1 The Head of Finance and the Monitoring Officer will ensure that the Treasury Management Policy Statement is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

2.2 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance or a duly delegated member of staff to be satisfied, by reference to the Monitoring Officer, the Council's legal advisers and external treasury management advisers as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

2.3 It is also the responsibility of the Head of Finance to ensure that the treasury management function complies with the requirements of the Non Investment Products Code (formerly known as the London Code of Conduct) for principals and broking firms in the wholesale markets.

3. Brokers.

3.1 The Council may conduct Money Market transactions through a broker "listed" by the Bank of England. Transactions may be conducted through traditional techniques such as the telephone or electronically via the Internet.

4. Direct Dealing.

4.1 The Council may also deal direct with borrowing counterparties either through direct communication or through the "Sungard" Portal. Where direct communication is carried out, the officer concerned should satisfy himself / herself of the bona fides of the person with whom he / she is dealing by reference to a previously established list of contacts duly authorised by the institutions themselves or supplied by the Council's Treasury Management consultants. When direct dealing, the officer should have regard to current market conditions so that the terms of the deal in respect of interest rate etc. are considered satisfactory.

5. Settlement Transmission Procedures.

5.1 Any monies passing in or out of the Council's bank accounts concerning money market deals will be transmitted via the CHAPS system. Payments must be authorised by two of the signatories to the bank accounts who must not have arranged the initial transaction. Faxed requests for the return of monies held in any of the Santander or Lloyds Banking Group deposit accounts must also be signed by two authorised signatories.

6. Documentation Requirements.

6.1 Any borrowing transaction completed must be confirmed in writing to the lender within 3 working days of the deal. The following information must be included:-

Name of Counterparty
Address of Counterparty
Amount of Loan
Period of Loan
Interest payable on maturity
Counterparty banking details

6.2 There will be no requirement for WDC to confirm investments in writing but if written confirmation is not received from either the broker who arranged the deal or the borrower within 5 working days then the broker should be contacted and requested to remedy the situation.

<u>TMP11</u> <u>Use of external service providers</u>

External Investment Agents.

1.1 When appropriate, the Council will employ external investment agents to manage an investment portfolio. .

1.2 The investment objective of the managed fund will be to achieve the maximum rate of return consistent with minimum capital risk. The performance benchmarks will be agreed with the manager at the outset of the contract but could typically be the Financial Times 7 day LIBID benchmark.

1.3 The agents may only use the following investment instruments in accordance with the ODPM's Guidance on Local Government Investments:-

A. Short term (up to 364 days) deposits (including certificates of deposit) subject to credit rating suitability within the meaning of the Banking Act 1987 with a partnership or body which is an authorised institution for the purposes of that Act.

B. Short term (up to 364 days) deposits (including certificates of deposit) subject to credit rating suitability with, and shares in, a building society which is incorporated or deemed to be incorporated under the Building Societies Act 1986.

C. Eligible bank bills (i.e. bills accepted by a body included in a list issued by the Bank of England of bodies whose acceptances are eligible for discounts at the Bank).

D. Sterling Treasury bills

E. Gilt edged securities (i.e securities specified in an order made under part 1 of schedule 2 to the Capital Gains Tax Act 1979 or listed in Part 2 of that schedule)

F. Sterling securities of which the interest and principal is guaranteed by H.M. Government.

G. Short term loans to the Nationalised Industries and statutory corporations.

H. Triple A rated Money Market Funds.

I. Bonds issued by Supranational Institutions or Multi Lateral Development Banks.

1.4 For the purpose of investment in all deposits, certificates of deposit, eligible bills and floating rate notes, the agents will only be permitted to invest in institutions included in the paragraph above. The amount invested with any one organisation is in any case subject to the council's overall limit as defined in TMP 1 above.

1.5 The managed fund will normally be invested in short term deposits and negotiable securities carrying rates of interest fixed for periods of up to 1 year (including floating rate notes). At any given time, the maximum average duration of the fund must not exceed 3 years.

1.6 The agents are also permitted to invest 100% of the fund in negotiable securities carrying rates of interest for periods of over one year (i.e. British Government "Gilts").

1.7 The fund manager will supply monthly and quarterly written reports on the managed fund.

External Treasury Management Advisers.

2.1 The Council employs Sector Treasury Services Ltd as its external treasury management advisers. The contract has recently been competitively re-tendered and has been renewed for three years, with an option to extend for a further two years, from January 2010 at a fee of £7,450 per year with annual increases based on the Consumer Prices Index (CPI) for the preceding year. The company will provide advice regarding economic and interest rate forecasting, counterparty creditworthiness reports, PWLB interest rate forecasts, performance indicators , assistance with debt restructuring, reports on the performance of our External Investment Agents and general treasury management advice.

2.2 Regular economic reports will be sent to the Head of Finance together with a weekly forecast of PWLB rate movements.

3. Bankers.

3.1 The Head of Finance will be responsible for making all payments on behalf of the Council and ensuring all receipts are promptly and properly banked. He will make arrangements for any electronic banking and for the transmission of loans and investment transactions. The Council's bank accounts will be held with one of the recognised clearing banks. That clearing bank need not necessarily be required to have a branch centrally located within Leamington Spa at which the accounts would be held.

3.2 The Council's current banking contract is with HSBC Bank and commenced in March 2010 for a further 5 years.