WARWICK DISTRICT COUNCIL	Executive – 4th February 2009	Agenda Item No.

Title: Treasury Management Strategy Plan for 2009/2010	
For further information about this report please contact	Roger Wyton 01926 456808 roger.wyton@warwickdc.gov.uk
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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 – 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 - 135

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	15/1/09	Mary Hawkins
Chief Executive	N/A	N/A
CMT	15/1/09	
Section 151 Officer	15/1/09	Mary Hawkins
Legal	13/1/09	Peter Oliver
Finance	14/1/09	Mike Snow
Portfolio Holder(s)	20/1/09	Cllr. Michael Doody

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 2009/2010 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 latter item is a new requirement 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.

2. RECOMMENDATIONS

2.1 That the Executive approves:-

a) The Treasury Management Strategy for 2009/10 as outlined in Appendix A,

b) The increase in the counterparty limit from £4 to £5m as outlined in Appendix B paragraph 2.4.

2.2 That the Executive recommends to Council:-

a) The 2009/10 Annual Investment Strategy in Appendix B,

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

2.3 Following the banking crisis during 2008, the Council has reviewed its investment counterparty limits and credit rating criteria and the Executive is asked to ratify the changes to the relevant Treasury Management Practices (TMP's) as detailed in paragraph 1.5 of Appendix A.

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 £9.93 million in new capital in 2009/10 and will have average investments of £30.9 million. This level of investments arises from our reserves and provisions, the General Fund and Housing Revenue Account balances, and accumulated capital receipts.

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.

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. An annual report 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.

APPENDIX A **ANNUAL TREASURY MANAGEMENT STRATEGY PLAN 2009/10**

1. GENERAL

1.1 This part of the report outlines the strategy that the Council will follow during 2009/10. 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 2009/10 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 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 and b) any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the council for the foreseeable future. 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 are a requirement of the CIPFA code. These have previously been reported to the Executive and approved. Following the banking crisis during 2008, the Council has reviewed its investment counterparty limits and credit rating criteria and there have been the following changes to the relevant Treasury Management Practices (TMP's) which are included as Appendix E for information :-

TMP 1 Risk Management.

Paragraph 2.1

a) Introduction of a triple A Sovereign rating in the credit rating criteria required for investments.
b) Revision of building societies categories and credit rating criteria
c) Addition of Fitch Money Market Fund ratings

Paragraph 2.2
a) Changes in counterparty investment limits

TMP 4 Approved Instruments, Methods and Techniques.
Paragraph 2.1
a) Deposits with other local authorities are now restricted to a maximum of 364 days in line with the Annual Investment Strategy.

TMP 6 Reporting Requirements and Management Information Arrangements
Paragraph 1.2
a) Annual Treasury Report requirements now include an Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

2 INTEREST RATE FORECASTS FOR 2009/10

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.-

(Q/E = quarter end e.g. March, June, September and December)

	Q/E 2 2009	**Q/E3 2009**	**Q/E 4 2009**	**Q/E1 2010**	**Q/E2 2010**	**Q/E3 2010**	**Q/E4 2010**	**Q/E1 2011**	**Q/E2 2011**	**Q/E 3 2011**	**Q/E 4 2011**
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%
5yr PWLB Rate	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%
10yr PWLB Rate	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%
25yr PWLB Rate	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%
50yr PWLB Rate	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%

2.2 This Council's short term investments returns and any short term borrowing requirements are normally driven by movements in Bank Rate whilst the PWLB rates reflect the likely interest cost of any long term borrowing which the Council may undertake during 2009/2010. Given that the period of any future borrowing for capital projects is likely to match the expected life of the asset so financed it is likely that the 10 or 25 year PWLB rates will be the most appropriate unless the Council decides to construct buildings in which case the 50 year rate would be more appropriate

2.3 2008 saw the credit crunch, global banking crisis and a change in economic outlook from slow growth to outright recession. In the UK, GDP had already been slowing during 2008, when compared with 2007, before the so called credit crunch materialised. Early in 2008 GDP stood at 2.3% but by the autumn this had declined to -0.3% and was expected to continue to be negative going into 2009.

2.4 After the initial concerns surrounding the credit crunch in the earlier part of 2008 it appeared that the storm had been weathered. The MPC's attention was focused on CPI inflation which had been rising sharply on the back of higher commodity and food prices. The economic data had been indicating a slowing economy for some time but this had not been sufficient to convince the MPC that there was a need for a cut in Bank Rate. It was the strength of the banking crisis, sparked by the collapse of Lehmann Brothers in New York which caused the MPC to cut Bank Rate by 0.50% on 8th October in concert with the Federal Reserve, ECB and other central banks. It then became clear that the economic downturn was going to be more severe than originally expected and Bank Rate was further reduced by 1.5% in November, 1.0% in December and 0.5% in January leaving Bank Rate at 1.50%. Sectors view is that Bank Rate will further decline to reach 0.5% by the end of March 2009. It is then expected to stay there throughout 2009/2010 and then to gently increase until it reaches 4.0% in Quarter 1 of 2012. However, there is a risk that Bank Rate could go lower than these forecasts suggest should the recession prove deeper and longer than currently expected. As a counterbalance to Sectors view, forecasts by UBS largely agree with Sectors view but Capital Economics expect Bank Rate to be at 0% by March 2009 and to stay there until at least the end of 2010.

2.5 Normally, one would expect Money Market interest rates to be around Bank Rate but a significant feature of the credit crunch and which emanated from the banks' reluctance to lend to each other has been the dislocation between Money Market interest rates and Bank Rate which has seen Money Market rates higher by as much as 1.5% than Bank Rate which has benefited the Council's investment returns. Sector expect this margin to continue albeit to a lesser degree for the next three years and therefore the Council's expected average investment rates for 2009/2010 have been calculated with this margin in mind.

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. It is anticipated that £700,000 borrowing will take place in 2009/10 to part fund the Spencers Yard project pending receipt, by 2014/15, of a capital receipt arising from the sale of the old Dole Office and Loft Theatre sites. This receipt will be utilised to repay the borrowing. Given this, it is likely that temporary borrowing will be utilised rather than longer term but advice will be sought from the Council's treasury advisors regarding the type of loan and the timing of when it is taken out.

b) From Usable capital receipts. It is anticipated that there will be no significant capital receipts generated in 2009/10 to finance capital expenditure and any financing from capital receipts will be by way of drawing down receipts brought forward from previous years.

c) From revenue or reserves.

d) From external contributions. With regard to the General Fund capital programme, it is anticipated that £70,660 from previous years contributions will be spent on Car Park Enhancements and £30,000 on Millbank Play Area improvements.

e) From grants. For 2009/10 this currently is £240,000 for disabled facilities improvement grants and £1,573,000 will be received from Advantage West Midlands in respect of the Spencers Yard project.

3.2 The Council's proposed 2009/10 General Fund capital programme amounts to £3,538,700. It is currently intended to finance this as follows:-

a) Contributions from revenue and reserves £1,153,042
b) External contributions and grants amounting to £1,673,660
c) Borrowing £700,000
d) Capital Receipts £11,998

3.3 The Council's 2009/10 expected Housing Investment Programme amounts to £6,395,100 and currently will be financed as follows:-

a) £240,000 capital grants
b) £886,000 capital receipts from the sale of council houses in previous years
c) £5,269,100 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 2009/10 TO 2011/2012

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 are included in the Budget report elsewhere on this agenda and are expected to be ratified by the Council at its meeting on 23rd 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
2009/10	£11,200,000	£1,217,000	£12,417,000
2010/11	£11,217,000	£800,000	£12,017,000
2011/12	£12,092,000	£800,000	£12,892,000

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:-

Capital Financing Requirement

Year	General Fund	HRA	Overall
2009/10	-£1,326,896	-£370,204	-£1,697,100
2010/11	-£1,326,896	-£370,204	-£1,697,100
2011/12	-£1,326,896	-£370,204	-£1,697,100

Incremental Impact on Council Tax / Housing Rents

Year	Council Tax	Housing Rent
2009/10	£0.94	£0.00
2010/11	£0.84	£0.00
2011/12	£1.57	£0.00

Operational Boundary for External Debt

Year	Operational Boundary for Borrowing	Operational Boundary for Other Long Term Liabilities	Operational Boundary for external debt
2009/10	£2,200,000	£417,000	£2,617,000
2010/11	£2,217,000	£0	£2,217,000
2011/12	£3,092,000	£0	£3,092,000

Upper limits to fixed interest rate and variable interest rate exposures

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2009/10	100%	30%
2010/11	100%	30%
2011/12	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 £15 million at any one time.

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 has been issued and the general policy objective is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. 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 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 2009/10 is contained within Appendix B.

7. BEST VALUE

7.1 The Council participates in the C.I.P.F.A. Treasury Management Benchmarking Club and its investment performance is benchmarked against a number of comparable authorities in the following areas:-

a) Investment management costs per £1m invested split between i) total cost (2009/10 estimated to be £943) ii) staff costs (2009/10 estimated to be £424) and iii) external costs (fund managers costs which are estimated to be £1,500 in 2009/10). The aim is to be in the lower half for cost.

b) Investment returns split between i) cash flow fixed and call investments including Business Reserve Deposit Accounts and Money Market Funds (2009/10 expected return 1.50%) ii) core investments (2009/10 expected return 3.02%) and iii) externally managed funds (2009/10 expected return 2.25%). Here the aim is to be in the highest half for return commensurate with the capital risk.

c) Overall cost of treasury management excluding banking costs (in 2009/10 estimated to be £39,063). Again the aim is to be in the lowest half.

d) 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).

e) The Council's external investments are currently managed by Invesco and the Invesco cash management fund is 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.

7.2 The Council's performance against the above benchmarks is reported in the Annual Treasury Management report which is presented to the Audit and Resources Scrutiny Committee after the end of the year to which it relates.

8. THE EURO

8.1 Currently the United Kingdom has not passed all of the five economic tests set by the Government as part of the potential process for this country to join the Euro currency. Recent economic events, in particular the move towards parity between Sterling and the Euro has focussed attention again on this issue and as there is no guarantee that the five tests will not be met at some point in the future, there is a need for some ongoing precautionary planning for the impact on the Authority and in this particular case, treasury management. The Treasury Management function will keep a watching brief on the subject and also review the Council's Euro Changeover Plan to ensure its currency..

9. EXTERNAL TREASURY MANAGEMENT ADVISERS

9.1 The Council employs Sector Treasury Services as its Treasury Management advisers. Their contract was renewed for three years in January 2007 at £7,000 per annum subject to annual increases based on the Consumer Prices Index (CPI). Therefore, it will be necessary to re-tender for this service during the latter part of 2009/2010.

10. BANKING SERVICES

10.1 The Council currently employs HSBC Bank to provide its banking services. The current contract expires in 1st March 2010 so it will be necessary to conduct a re-tendering exercise during the latter part of 2009/10.

11. OTHER ISSUES

11.1 The Council is participating together with other Councils and the Department for Communities and Local Government in a pilot project looking at the ramifications of operating outside of the Housing Subsidy System in respect of its own housing stock. The Government is currently considering the results of the pilot. This could have a significant impact on the Council's Treasury Management activities and the Treasury Management Function will keep itself informed of the developments in this area in order to assist where necessary should the Council move to operating outside of the Housing Subsidy System.

APPENDIX B 2009/10 ANNUAL INVESTMENT STRATEGY

1. BACKGROUND

1.1 This Council has regard to the Governments Guidance on Local Government Investments and CIPFA's 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 heads of Specified and Non Specified Investments. These are listed in the tables below. Specified investments are defined as those with a high credit rating, the definition of which for this Council is either an explicit guarantee from the State or parent body that any debts will be honoured or a Fitch Rating of at least F1 short term, A+ long term, Individual Rating B/C or failing that a state support indicator of 1 or 2. Following the failures experienced within the banking sector as a result of the "credit crunch" crisis, a review of this Council's credit rating criteria has taken place in conjunction with our treasury advisors and whilst the above criteria are deemed adequate, as an additional precaution investments will only be placed with institutions meeting the above criteria within countries having a triple A sovereign rating. An explanation of these credit rating terms appears in Appendix D. The investment must be for a maximum of 364 days.

2.2

Specified Investments

Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Period**
Debt Management Agency Deposit	Yes	UK Government Backed	In House	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	364 days

Investment	Repayable/ Redeemable within 12 months?	Secuity / Minimum Credit Rating	Circumstance of Use	Maximum Period
Deposits with Banks with maturities up to 1 year (inc. Business Call and Reserve Accounts) and including forward deals	Yes	Fitch Rating of AAA sovereign rating, 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	364 days in aggregate
Deposits with Building Societies including forward deals	Yes	Minimum Fitch rating of AAA Sovereign rating, Long Term A+ and Short term F1 – maximum of £4m Less than A+ Long Term but with Short term rating of F1 or above – maximum of £2m	In house and by external fund manager	364 days in aggregate
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	Not defined as subject to cash flow requirements

Investment	Repayable/ Redeemable within 12 months?	Secuity / Minimum Credit Rating	Circumstance of Use	Maximum Period
Certificates of Deposit issued by Banks and Building Societies	Yes	Minimum Fitch Rating of AAA Sovereign rating, Short term F1 Long Term A+ Individual B/C (if less than B/C State Support indicator of 1 or 2)	External fund manager only	364 days
Gilt Edged Securities	Yes	UK Govt. backed	External fund manager only	Not defined
Eligible Bank Bills	Yes	Minimum credit rating as determined by external fund manager	External fund manager only	364 days
Treasury Bills	Yes	UK Govt. backed	External fund manager only	Not defined
Bonds issued by Supranational Institutions or Multi Lateral Development Banks	Yes	AAA or government guaranteed	External fund manager only	Not defined
Sterling Securities guaranteed by HM Government	Yes	UK Govt. backed	External fund manager only	Not defined

Non Specified Investments

Investment	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Circumstance of Use	Maximum Limit	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 Rating of AAA Sovereign rating 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	£15 million (in total). Individual limit £5m per specified investments	2 years
Deposits with building societies greater than 1 year (including any forward dealing)	No	Minimum Fitch rating of AAA Sovereign rating Short term F1 Long Term A+	In house after consultation with Treasury Advisers External fund manager	As above - £15 million (in total). Individual limit £2m	2 years

2.3 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 and obtaining a decent return on the investment. The current duration for investments with unrated building societies is 6 months but following the review of the Council's counterparty rating criteria it is felt appropriate to reduce this to 3 months. 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 any one deposit 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 £15 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 following the review of our counterparty credit ratings any investments over 364 days with building societies will be limited to £2m per counterparty**.**

2.4 The review of the Council's counterparty credit rating criteria revealed that it would be advantageous to increase the counterparty limit for specified investments from £4 to £5m. In recent times a number of the Council's core investments (i.e. non cash flow derived) have been invested for 364 days with Building Societies who offered attractive rates of interest whilst meeting our minimum credit rating requirements. Our treasury advisors felt uncomfortable with this and suggested that it would be better if the individual limit was raised and core investments pooled so that a larger amount could be invested with an institution with a higher credit rating whilst still achieving a good rate of interest. Therefore it is recommended that the maximum limit for specified investments with any one counterparty will be £5 million (previously £4m) shared £4 million in house and £1 million external fund manager where appropriate. Our treasury advisors recommend that no more than 20% of total investments should be with one counterparty at any one time. During 2009/10 the Council's investment balances are expected to range from £25 to £50m depending on the time of the year. Therefore, based on a limit of £5m per counterparty our maximum exposure will range from 20% to 10% which is satisfactory. Non specified investment limits are as shown in the table.

2.5 As a means of further diversifying risk whilst obtaining a reasonable return for cash flow derived investments, it has been decided to open a further 2 Money Market Funds (Henderson Liquid Assets Fund and Prime Rate Liquidity Fund) both of which conform with the Council's credit rating requirements for Money Market Funds.

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 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 2.1 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 Invesco. 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.

5. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

5.1 Based on its cash flow forecasts, the Council anticipates that its investments in 2009/10 on average will be in the region of £31 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 £15 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 Invesco so that the overall ceilings of 40% and £15 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 2008/2009 it is unlikely that this will result in the average length of an investment being more than 2 months in 2009/10. 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 weekly advice issued by our Treasury Advisers which for 2009/10 is likely to be the short end.

6.2 The 2009/10 interest rate outlook is for a Bank Rate of 0.50% throughout the year. The credit crunch margin referred to in paragraph 2.5 of Appendix A is estimated to add a further 1% to Bank Rate making an average Money Market interest rate of 1.5% for the year. It is expected that rates will begin to rise again in early 2010/11 so 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 when rates begin to rise. The recent banking crisis has heightened interest in high quality counterparty security and in order to gain the interest of the highest quality counterparties who typically are only interested in investments of £5m and upwards, the Council will give consideration to accumulating funds so that investments of that size can be placed (see paragraph 2.4 above). For cash flow driven investments it is currently anticipated that the best rates of return, whilst protecting the security of the investment, will be found in the Money Markets due to the credit crunch margin . Consequently, little use is expected to be made of the Bank Rate tracking bank accounts run by Bank of Scotland and Abbey National. To achieve the maximum flexibility 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. They may also be used to store maturing core investments until sufficient has accumulated for a deposit to be made as related above. Depending on the exact timing of any further Bank Rate changes it is expected that the In House portfolio will achieve a 2.39% return for 2009/10 which is in sharp contrast with the 08/09 revised estimate of 5.35%.

7. EXTERNAL CASH FUND MANAGEMENT

7.1 Invesco manage our portfolio on a discretionary basis and they have stated that their central case for the 2009/10 return on our portfolio is 2.25%. It is expected that this will be achieved through the use of cash, Money Market Instruments (such as Certificates of Deposits), Gilts and Supranational Bonds. During 2009/10, the performance of the portfolio will be monitored and reported regularly to the Audit and Resources Scrutiny Committee.

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.

APPENDIX C

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 2009/2010.

3.1 It is recommended that for any long term borrowing which is incurred in 2009/2010, 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 D

AN EXPLANATION OF CREDIT RATING TERMS

1. International Long - Term Credit Ratings

1.1 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.

1.2 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.

2. International Short - Term Credit Ratings

2.1 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.

2.2 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.

3. Individual Ratings

3.1 These attempt to assess how a bank 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.

3.2 The minimum rating that WDC will use is B/C. B denotes a bank with a sound risks profile and without significant problems. The bank's performance has generally been in line with or better than its peers. C denotes a bank 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. State Support Indicator

4.1 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. Barclays Bank in the U.K.).

5. Credit Ratings of WDC Counterparties

5.1 The following table indicates how the counterparties 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. Not included in this table are the unrated building societies (in top 20) which are 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 (£)
Abbey National	AA-	F1+	B	1	5 million
Alliance & Leicester	AA-	F1+	B/C	1	5 million
Bank of Scotland	AA	F1+	B	1	5 million
Barclays Bank	AA	F1+	B	1	5 million
Clydesdale Bank	AA-	F1+	B/C	1	5 million
Dexia Bank	AA-	F1+	C	1	5 million
HSBC	AA	F1+	A/B	1	5 million
Chelsea BS	A-	F1	B/C	3	2 million
Coventry BS	A	F1	B	3	2 million
Leeds BS	A	F1	B	3	2 million
Nationwide BS	AA-	F1+	B	1	4 million
Newcastle BS	A-	F1	B/C	3	2 million
Skipton BS	A	F1	B/C	3	2 million
Yorkshire BS	A	F1	B/C	3	2 million

5.2 The following table indicates the credit ratings of institutions on the Invesco lending list which are not already covered in 5.1 above. Each institution is limited to a maximum of £1 million.

Counterparty	**Long Term**	**Short Term**	**Individual**	**State Support**
Australia & New Zealand Banking Group	AA-	F1+	B	2
Banco Bilbao Vizcaya Argentaria	AA-	F1+	A/B	1
Bank of Montreal	AA-	F1+	B	1
Bank of New York	AA-	F1+	A/B	2
Bank of Nova Scotia	AA-	F1+	B	1
BNP Paribas	AA-	F1+	A/B	1
Commonwealth Bank of Australia	AA	F1+	A/B	2
Credit Agricole Indosuez	AA-	F1+	C	1
Credit Industriel Commercial	AA-	F1+	B/C	1
Credit Suisse First Boston	AA-	F1+	B	1
Danske Bank	AA-	F1+	B	1
Deutsche Bank AG	AA-	F1+	B	1
ING Bank NV	AA	F1+	B	1
KBC Bank	AA-	F1+	B/C	2
Lloyds TSB Bank	AA+	F1+	A	1
Nordea Bank Finland	AA-	F1+	B	1
Northern Trust Company	AA-	F1+	B	3
Rabobank Group	AA+	F1+	A	1
Royal Bank of Canada	AA	F1+	A/B	1
Royal Bank of Scotland	AA-	F1+	B/C	1
Societe Generale	AA-	F1+	B	1
State Street Bank & Trust Co.	AA-	F1+	B	2
Svenska Handelsbanken	AA-	F1+	B	1
Toronto – Dominion Bank	AA-	F1+	B	1
UBS AG	A+	F1+	B/C	1
Westpac Banking Corporation	AA-	F1+	B	2

APPENDIX E

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 its external investment agents 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 triple A sovereign rating .

b) Any category A Building Society. That is , any Building Society with a country sovereign rating of AAA, 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 AAA, 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

k) Abbey National, HBOS and any other Bank or Building Society who satisfy the Council's minimum credit rating requirements Base Rate tracking Deposit Accounts

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

Any institution as defined in paragraphs 2.1(a,,e,f,g,h,i,j,k) 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 subject to a maximum of £15 million (including 100% of the Invesco Fund) 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,k) is limited to a maximum of £5 million per counterparty. The limit for any category A building society is £2 million.No investments of cash flow surpluses can be for a period of more than 364 days. Investments with a Category C Building Society are limited to a maximum of three months.

3. **<u>Fraud, Error, Corruption and Contingency Risk.</u>**

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.

APPENDIX E Continued.

TMP4 Approved instruments, methods and techniques

1. Treasury Management is defined as " the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". It is necessary to define the activities and range of responsibilities which are involved in order to achieve the statement above. These are as follows:-

A. Cash flow (daily balances and longer term forecasting),
B. Investing surplus funds per the Annual Investment Strategy.
C. Borrowing to finance cash deficits,
D. Funding of capital expenditure through borrowing, capital receipts, grants, external contributions, use of internal balances or leasing,
E. Management of debt (including restructuring and monitoring an even maturity profile),
F. Interest rate exposure management,
G. Dealing with brokers, bank, agents and PWLB,
H. Consideration of the use of and monitoring of external managers for temporary investment of funds and debt restructuring.

2. **Investments.**

2.1 The Council will invest surplus monies at the best possible rates given that the security of the capital sum must remain paramount at all times. The investment must be in accordance with the then (now DCLG) ODPM's Guidance on Local Government Investments and the Council's Annual Investment Strategy, the production of which is a requirement under the guidance and must fall within one of the following categories or investment vehicles:-

A. Deposits (including certificates of deposit) for a maximum of 2 years 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. Deposits (including certificates of deposit) for a maximum of 2 years 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. Deposits with another Local Authority (including Police/Fire authorities) for a maximum of 364 days.

D. 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)

E. Sterling Treasury bills

F. 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)

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

H. Short term loans (less than 365 days) to the UK Government, Nationalised Industries and statutory corporations.

I. The Debt Management Account (DMA) facility operated by HM Treasury

J. Triple A rated Money Market Funds

K Bonds issued by Supranational Institutions or Multi Lateral Development Banks

L Base Rate tracking Bank and Building Society Deposit Accounts

2.2 The Council may also undertake forward investment deals subject to the total period not exceeding 2 years

3. **Borrowing.**

3.1 The Council will raise capital finance in accordance with the Local Government Act 2003 using only the following instruments:-

A. Public Works Loans Board,
B. Money Market Long Term,
C. Money Market temporary (up to 364 days),
D. Local bonds,
E. Stock issues,
F. Overdraft,
G. Internal (capital receipts and revenue balances),
H. Leasing,
I. Government and E.C. capital grants,
J. Lottery monies,
K. PFI and other permitted public/private funding vehicles,
L. External contributions from other bodies such as W.C.C.

3.2 Financing from sources other than those listed above will not be permitted. All of these forms of funding will be considered dependent on the prevailing economic climate (including interest rates , regulations and local considerations).

3.3 Where A, B, C and F are concerned, any borrowing, in sterling only, by the Council will be limited to the following institutions:-

A. From the Bank of England or an authorised institution within the meaning of the Banking Act 1987,

B. From the National Debt Commissioners or the Public Works Loans Board.

3.4 Before any new long term loan is taken, the following factors must be reviewed :- a) the maturity profile of all outstanding debt, b) the policy of investing unused capital receipts, c) the interest rate mix of existing debt between fixed and variable rates and d) the Council’s revenue capacity to finance the borrowing.

APPENDIX E Continued.

TMP6 Reporting requirements and management information arrangements

1.1 The treasury function will provide the Head of Finance and the Strategic Finance Manager with weekly reports covering all money market transactions, interest rate information, bank cleared balances, external investments/WDC interest rate comparisons.

1.2 The Head of Finance / Responsible Financial Officer will present an Annual Treasury Report which will include the Annual Strategy plan, Annual Investment Strategy, Minimum Revenue Provision Policy Statement, relevant Prudential Indicators and any revisions to the Council's Policy Statement and Treasury Management Practices to the Executive prior to commencement of the financial year to which it relates. This will not preclude the revision of this report at any time of the year if necessary due to legislation or significantly changed market conditions etc. The Annual Treasury Report will also include specific reference to the need to comply with the balanced budget requirement per the Local Government Finance Act 1992 Section 33. Section 32 also requires a local authority to calculate its budget requirement for each financial year including the revenue costs which flow from capital financing decisions.

1.3 The Head of Finance will report to Members on the activities of the treasury management operation on not less than four occasions during the year. The reports will include confirmation or otherwise that all activities during the period reported upon have been carried out in accordance with the policy statement or the relevant Treasury Management Practice.

1.4 An annual report on treasury management will be compiled by the Head of Finance and submitted to Members by 30th September of the financial year after the one to which it relates.