WARWICK DISTRICT COUNCIL	**AGENDA ITEM NO.**
Report Cover Sheet	
Name of Meeting:	Executive
Date of Meeting:	11th February 2008
Report Title:	Treasury Management Strategy Plan for 2008/09.
Summary of report:	The Executive considers the attached report and approves the Treasury Management Strategy for 2008/09 and recommends to Council, for approval, the 2008/09 Annual Investment Strategy.
For further information please contact (report author);	Roger Wyton, Principal Accountant (01926 456808 roger.wyton@warwickdc.gov.uk)
Business Unit:	Finance
Would the recommended decision be contrary to the policy framework:	No
Would the recommended decision be contrary to the budgetary framework:	No
Wards of the District directly affected by this decision:	All
Key Decision?	Yes
Included within the Forward Plan?	Yes
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information)	No

(Variation) Order 2006	
Date and name of 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 Advisers, Brokers, External Investment Agents etc.

Consultation Undertaken

Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.

Consultees	**Yes/ No**	**Who**
Other Committees	N/A	
Ward Councillors	N/A	
Portfolio Holders	Yes	Corporate and Strategic Leadership – Cllr. Michael Coker
Other Councillors	N/A	
Warwick District Council recognised Trades Unions	N/A	
Other Warwick District Council Service Areas	N/A	
Project partners	N/A	
Parish/Town Council	N/A	
Highways Authority	N/A	
Residents	N/A	
Citizens Panel	N/A	

Officer Approval

With regard to officer approval all reports must be approved by the report authors relevant director, Finance Services and Legal Services.

Officer Approval	**Date**	**Name**
Relevant Director(s)	15/1/08	Mary Hawkins
Chief Executive		
CMT	17/1/08	
Section 151 Officer	15/1/08	Mary Hawkins
Legal	No reply	Simon Best
Finance		None – report from Finance
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. RECOMMENDATIONS

1.1 That the Executive approves the Treasury Management Strategy for 2008/09 as outlined in Appendix A and recommends to the Council for approval the 2008/09 Annual Investment Strategy in Appendix B. The Executive is also asked to ratify the following changes to the Treasury Management Practices (TMP's). TMP's 1 and 11 allowing the Council's External Investment Agents to invest 100% of the funds that they manage in negotiable securities carrying rates of interest for periods of over one year and TMP 5 deleting the requirement for the agreement of the Responsible Financial Officer before entering into any long term investment not exceeding £2.5m (see Appendix A paragraph 1.5).

2. REASONS FOR RECOMMENDATIONS

2.1 The Council is required to have an approved Treasury Management Strategy, including an Annual Investment Strategy, within which its Treasury Management operations can be carried out. The Council will be investing approximately £8 million in new capital in 2008/09 and will have average investments of £29.4 million. This level of investments arises from our reserves and provisions, the General Fund balance, and accumulated capital receipts.

3. ALTERNATIVE OPTIONS CONSIDERED

3.1 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.

4. POLICY AND BUDGET FRAMEWORK

4.1 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 STRATEGY PLAN 2008/09**

1. GENERAL

1.1 This part of the report outlines the strategy that the Council will follow during 2008/09. 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 2008/09 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. At its meeting in July 2007, the Executive approved the increase to 100% in the amount of the fund managed by the Council's External Investment Agents that is permitted at any one time to be invested in negotiable securities carrying rates of interest for periods of over one year. This has now been included in TMP 11 and also TMP 1 and the executive is asked to ratify these amendments. TMP 5 has also been amended to reflect the fact that decisions on long term investments i.e. over 364 days and up to 2 years not exceeding £2.5m are taken by the Head of Finance and/or his staff and do not involve the Responsible Finance Officer.

2 INTEREST RATE FORECASTS FOR 2008/09

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 1 2008	**Q/E2 2008**	**Q/E 3 2008**	**Q/E4 2008**	**Q/E1 2009**	**Q/E2 2009**	**Q/E3 2009**	**Q/E4 2009**
Bank Rate	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB Rate	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%
10 yr PWLB Rate	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%
25yr PWLB Rate	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%
50yr PWLB Rate	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%

2.2 The most important forecasts for this Council in the table above are the Bank Rate,10 yr and 25yr to 50yr PWLB rate forecasts. This Council's short term investments returns and any short term borrowing requirements are driven by movements in Bank Rate. It is not currently envisaged that the Council will require any long term funding during 2008/09 but if it does then, depending on the schemes funded, it is likely to be for 10 years or 25 + years.

2.3 Sectors view is that Bank Rate started on a downward trend from 5.75% to 5.50% in December 2007 and this will be followed by further cuts in quarter 1 (either February or March) 2008 to 5.25% and to 5.00% sometime in quarter 2 (April to June) 2008. It will then be unchanged for the following next two years. However, there is a downside risk to this forecast if inflation concerns subside and so open the way for the MPC to make further cuts in the Bank Rate. As a counterbalance to Sectors view, forecasts by Capital Economics and UBS, whilst agreeing that the Bank Rate will be cut, go further with Capital Economics forecasting that Bank Rate will be 4.00% by the end of Q4 2009 and UBS 4.50% by the end of Q4 2009.

2.4 Sectors view is based on an economic view where GDP growth during 2007 has been strong, peaking at 3.3% in Quarter 3 but this growth is expected to cool during 2008 to around 2.0%. In addition, higher than expected immigration from Eastern Europe has dampened wage inflation. The combination of previous increases in Bank Rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices have all put consumer spending power under major pressure and has also impacted on house prices which started to fall in quarter 3 2007 and will continue to fall in 2008.

2.5 Following the sub prime mortgages problems in the USA, banks have been tightening their credit criteria leading to a so called "credit crunch". This will also dampen consumer expenditure through higher interest charges on credit card debt and housing mortgages. Public expenditure is also expected to be kept under tight rein for the next few years in contrast to the previous years where increased public expenditure helped to maintain the strong growth in the UK economy. The above criteria show the need for significant cuts in Bank Rate in order to keep the economy growing at its trend rate.

2.6 However, the MPC is in something of a dilemma as it is very concerned about the build up of inflationary pressures in the economy, particularly with regard to the price of oil which is now around $100 a barrel (compared with $30 in 2003) and the consequent knock on effect on general prices. Prices of UK manufactured goods have risen at the fastest rate in 16 years – 4.5% in November 2007 and food prices have also risen at their fastest rate for 14 years (6.6% annual increase). Consequently the MPC is going to be much more cautious about cutting rates whilst these inflationary pressures exist.

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.

b) From Usable capital receipts. It is anticipated that there will be significant capital receipts available in 2008/09 to finance capital expenditure.

c) From revenue or reserves.

d) From external contributions. In 2008/09 it is anticipated that £33,335 received from the other partner authorities will be spent on the Warwickshire Direct Partnership office and £20,000 received from the Home Office will be spent on the Safer Neighbourhood Programme. With regard to the Housing Investment Programme it is envisaged that contributions received from developers amounting to £220,000 will be used on bringing houses in Old Town back into use.

e) From grants. For 2008/09 this currently is £120,000 for disabled facilities improvement grants.

3.2 The Council's proposed 2008/09 General Fund capital programme amounts to £1,779,400. It is currently intended to finance this as follows:-

a) Capital receipts £1,048,455
b) Contributions from revenue and reserves £677,610 and
c) External contributions and grants amounting to £53,335.

However, the Council, when reviewing its capital resources for future years, may decide to undertake prudential borrowing to fund part of the programme and the Operational Limit for Borrowing (see para. 5.3 below) has been increased by £1,300,000 to reflect this.

3.3 The Council's 2008/09 expected Housing Investment Programme amounts to £6,182,400 and currently will be financed as follows

a) £120,000 capital grants
b) £951,100 capital receipts from the sale of council houses etc.
c) £220,000 from external contributions
d) £4,891,300 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 2008/09 TO 2010/2011

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 21st 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
2008/09	£10,800,000	£1,271,000	£12,071,000
2009/10	£10,800,000	£1,475,000	£12,275,000
2010/11	£10,800,000	£1,674,000	£12,474,000

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
2008/09	-£1,326,896	-£370,204	-£1,697,100
2009/10	-£1,326,896	-£370,204	-£1,697,100
2010/11	-£1,326,896	-£370,204	-£1,697,100

Incremental Impact on Council Tax / Housing Rents

Year	Council Tax	Housing Rent
2008/09	£0.17	£0.00
2009/10	£0.27	£0.00
2010/11	£0.37	£0.00

Operational Boundary for External Debt

Year	Operational Boundary for Borrowing	Operational Boundary for Other Long Term Liabilities	Operational Boundary for external debt
2008/09	£2,800,000	£1,021,000	£3,821,000
2009/10	£2,800,000	£976,000	£3,776,000
2010/11	£2,800,000	£924,000	£3,724,000

The Operational Boundary for borrowing includes a potential £1,300,000 prudential borrowing in respect of the purchase of wheeled refuse bins and financing the works at Court Street railway arches should the Council , when reviewing its capital resources for future years, decide to finance these items by borrowing.

Upper limits to fixed interest rate and variable interest rate exposures

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2008/09	100%	30%
2009/10	100%	30%
2010/11	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 £15 million.

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 and 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 Councils 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 Councils Annual Investment Strategy for 2008/09 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 (2008/09 estimated to be £1,061) ii) staff costs (2008/09 estimated to be £478) and iii) external costs (fund managers costs which are estimated to be £1,500 in 2008/09). 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 (2008/09 expected return 5.00%) ii) core investments (2008/09 expected return 5.34%) and iii) externally managed funds (2008/09 expected return 5.50%). 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 2008/09 estimated to be £38,033). 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 distributed to all members of the Council 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. However there is no guarantee that they will not be met at some point in the future and there is a need for some ongoing precautionary planning for the impact on the Authority and in this particular case, treasury management. It is thought likely that any possible entry to the Euro is several years away but during 2008/09 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. 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).

10. OTHER ISSUES

10.1 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 2008/09 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. An explanation of these credit rating terms appears in Appendix C. The investment must be for a maximum of 364 days.

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
Deposits with Banks with maturities up to 1 year (inc. Business Call and Reserve Accounts) and including forward deals	Yes	Fitch Rating of 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

Investment	Repayable/ Redeemable within 12 months?	Secuity / Minimum Credit Rating	Circumstance of Use	Maximum Period
Deposits with Building Societies including forward deals	Yes	Minimum Fitch rating of Short term F1	In house	364 days in aggregate
Money Market Funds	Yes	Standard & Poors AAAm and Moody's AAA and volatility rating MR1+	In house	Not defined as subject to cash flow requirements
Certificates of Deposit issued by Banks and Building Societies	Yes	Minimum Fitch Rating of 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

<u>Non Specified Investments</u>

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	6 months
Deposits with banks and building societies greater than 1 year (including any forward dealing)	No	Minimum Fitch Rating of 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 £4m per specified investments	2 years

2.2 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. There is of course a risk that the Building Society may fail during the maximum 6 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 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 £15 million in total. 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**.**

2.3 The maximum limit for specified investments with any one counterparty will be £4 million shared £3 million in house and £1 million external fund manager where appropriate. Non specified investment limits are as shown in the table.

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. These ratings are used to establish the credit quality of counterparties and investment schemes. 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 2008/09 on average will be in the region of £29 million**.**

5.2 The maximum percentage of its overall 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 maximum amount available for long term investment will be £15 million 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 2007/2008 it is unlikely that this will result in the average length of an investment being more than 2 months in 2008/09. 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.

6.2 The 2008/09 interest rate outlook is for a further decrease in Bank Rate during the next couple of months to 5.25%. It is then likely to be cut to 5.00% in quarter 2 of 2008 and then stay at this level for the next two years. Depending on when they mature the Council will seek to lock in its core investments at the highest possible rate so providing some protection against the expected falling interest rate environment. For cash flow driven investments it is currently anticipated that use of the Bank Rate tracking bank accounts run by Bank of Scotland and Abbey National will be made in order to lock in a portfolio return at least equal to Bank Rate which otherwise may not be possible given the relatively small individual size of the Council's investments (typically £2 to £3 million at a time). The Council will also actively seek to open further Bank Rate tracking accounts where possible. Within cash flow restrictions advantage will also be taken of any opportunities in the Money Markets where short term rates are higher than Bank Rate. To achieve the maximum flexibility high performing triple A rated Money Market Funds e.g. Standard Life will continue to be used particularly during periods of falling interest rates where the time lag in the redemption of the investment instruments contained within the fund often means that the interest rates paid by the MMFs is greater than either the Money Markets or Bank Rate tracking bank accounts. Depending on the exact timing of any further Bank Rate changes it is expected that the In house portfolio will achieve a 5.20% return for 2008/09.

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 2008/09 return on our portfolio is 5.50%. 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. Following past performance, the portfolio was reduced from £10m to £5m in May 2007. During 2008, the performance of the reduced portfolio will be monitored and reported regularly to the Executive.

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

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.).