SUPPLEMENTARY 2

THE ASSEMBLY

Wednesday, 24 February 2010

Agenda Item 12. **Treasury Management Annual Strategy and the Council's Prudential Indicators (Pages 1 - 47)**

Contact Officer: Margaret Freeman
Telephone: 020 8227 2638
Minicom: 020 8227 2685
E-mail: margaret.freeman@lbbd.gov.uk

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THE ASSEMBLY

24 FEBRUARY 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

TREASURY MANAGEMENT ANNUAL STRATEGY STATEMENT 2010/11	**FOR DECISION**

Summary

This report deals with the Treasury Management Annual Strategy Statement, treasury indicators and the Annual Investment Strategy to be approved by Assembly.

The production and approval of a Treasury Management Annual Strategy Statement and Annual Investment Strategy are requirements under Section 15(1) of the Local Government Act 2003. It is also a requirement of the act to set an authorised borrowing limit for the forthcoming financial year.

The Local Government Act 2003 also requires the Council to set Treasury Indicators which take into account the financing of the Council's capital expenditure plans over the next 3 financial years.

In accordance with the Council's Constitution, on 16 February 2010, the Executive agreed to recommend the Treasury Management Annual Strategy Statement, Annual Investment Strategy, a borrowing limit of £200 million for 2010/11, and Treasury Indicators to the Assembly for agreement.

Wards Affected: All Wards

Recommendations

The Assembly is asked to agree:

1. The Treasury Management Annual Strategy Statement and Annual Investment Strategy as detailed in Appendix 1;

2. An authorised borrowing limit of £200 million for 2010/11; and

3. The treasury indicators for 2010/11 to 2012/13 as set out in Appendix 1.

Reason

It is necessary for the Assembly to approve this report under the requirements of the Local Government Act 2003.

Implications:

Financial:
The detailed financial implications are included in the Executive report appended to this document.

Legal:
The detailed legal implications are included in the Executive report appended to this document.

Contractual:
There are no specific contractual issues in respect of this report.

Risk Management:
Detailed risk management implications are included in the Executive report appended to this document.

Customer Impact:
There are no specific customer impact issues in respect of this report.

Safeguarding Children:
As this report does not concern a new or revised policy there are no specific adverse impacts insofar as this report is concerned.

Crime and Disorder:
There are no specific implications insofar as this report is concerned.

Property/Assets:
This report deals with the financing arrangements underpinning the capital programme, but it is not specifically relevant to property/assets.

Options Appraisal:
Options are considered in Appendix 1 in terms of how the Treasury Management Strategy has been arrived at.

Contact Officer	**Title**	**Contact Details**
John Hooton	Strategic Financial Controller	Tel 020 8227 2801 Fax 020 8227 2770 Minicom: 020 8227 2413 e-mail john.hooton@lbbd.gov.uk

THE EXECUTIVE

16 FEBRUARY 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

This report is submitted under Agenda Item 14. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the setting of the Annual strategy as part of the Council's overall budgetary framework for 2010/11.

Title: Treasury Management Annual Strategy and the Council's Prudential Indicators 2010/11	**For Decision**

Summary

This report deals with the Treasury Management Annual Investment Strategy Statement, Treasury and Prudential Indicators, Annual Investment Strategy and borrowing limits, in compliance under section 15 (1) (a) of the Local Government Act 2003 for consideration by the Executive.

The production and approval of a Treasury Management Annual Strategy Statement and Annual Investment Strategy are requirements of the Council under Section 15(1) of the Local Government Act 2003. It is also a requirement of the act to set an authorised borrowing limit for the forthcoming financial year.

The Local Government Act 2003 also requires the Council to have regard to the Prudential Code, and to set prudential indicators which take into account the Council's capital investment plans for the next 3 years.

Wards Affected: None

Recommendation(s)

The Executive is asked to recommend the Assembly to approve:

(i) The Treasury Management Strategy Statement for 2010/11 and, in doing so:

a) To agree an authorised borrowing limit of £200million for 2010/11 as the statutory limit determined under section 3 (1) of the Local Government Act 2003, as detailed in section 4 of the report;

b) To adopt the he Borrowing Strategy and Debt Rescheduling Strategy for 2010/11 as detailed in sections 7 and 8 respectively of the report;

c) To adopt the Minimum Revenue Provision Strategy for 2010/11 which sets out the Council's policy on repayment of debt, as detailed in section 9 of the report;

d) To adopt the Annual Investment Strategy for 2010/11, which outlines the investments that the Council may use for the prudent management of its investment balances and benchmarks set for external managers, as set out in section 10 of the report;

e) To agree the Treasury Management Indicators and Prudential Indicators for 2010/11 as set out at Appendix A to this report; and

f) To agree the Treasury Management Practices and Scheme of Delegation as set out at Appendix D and the Reporting Arrangements at Appendix E to this report.

Reason(s)

To ensure that the Council meets the requirements of the Local Government Act 2003.

Implications

Financial
The aim of this Treasury Management Strategy is to maximise the Council's financial resources. Detailed financial considerations are considered throughout this document.

Legal
Local authorities have power to invest under section 12 Local Government Act 2003 for any purpose relevant to their statutory functions or for the purposes of the prudent management of their financial affairs. The Council is required under the 2003 Act to have regard to any relevant guidance. In this regard the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires local authorities to have regard among other things to the Prudential Code for Capital Finance in Local Authorities and 'Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes.

This report sets out a proposed strategy for investment in accordance with the legislation and codes of practice referred to. Members will note that the strategy includes an element of borrowing. In relation to borrowing section 3 Local Government Act 2003 requires local authorities to determine and review how much it can afford to borrow (the affordable borrowing limit). The proposed level of borrowing is within the authorised limit. In relation to capital projects local authorities are also required to charge to a revenue account a minimum amount (minimum revenue provision) for that financial year and may charge any amount in addition to the minimum in respect of the financing of capital expenditure incurred by the local authority (Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

Risk Management
This report has risk management issues for the Council, e.g. the risk that a counterparty could cease trading or that interest rates would fall adversely. The mitigation of these is contained in this report.

Staffing
No specific implications

Customer Impact
No specific implications

Safeguarding Children
No specific implications

Property / Assets
No specific implications

Options Appraisal
Not applicable.

Head of Service John Hooton	Title: Strategic Finance Controller	Contact Details: Tel: 020 8227 2801 Fax: 020 8227 2770 E-mail: john.hooton@lbbd.gov.uk
Report Author Miriam Adams	Title: Treasury & Pensions Manager	Contact Details: Tel: 020 8227 2770 Fax: 020 8227 2770 E-mail: Miriam.adams@lbbd.gov.uk

1. Treasury Management Strategy for 2010/11

1.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires local authorities to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The 2010/11 strategy covers:

- The Legislation and changes to Legislation;
- Revised Treasury Management Policy;
- The treasury limits and indicators;
- The current treasury position and borrowing position;
- Prospects for interest rates;
- The borrowing strategy and Borrowing Requirement;
- The policy on borrowing in advance of need and debt rescheduling strategy;
- The Minimum Revenue Provision strategy;
- The Annual Investment Strategy and Investment Policies;
- Security of Capital and creditworthiness policy;

- Statutory Requirements on Reporting of Treasury Management;

2. Legislation and Changes in Legislation

2.1 2009 has seen a number of changes to Treasury Management legislation and guidance. CIPFA issued an amended CIPFA Treasury Management in the Public Services Code of Practice (the Code) and Cross-Sectoral Guidance Notes.

2.2 The Revised CIPFA Treasury Management Code of Practice 2009
Council's are required to formally adopt the resulting Treasury Management Practice Statements included in **Appendix D** to this report. The original 2001 Code has been adopted annually in the Council's Treasury Management Strategy.

The revised Code now requires the Council's Treasury Management Strategy to be approved annually by the full Council. In addition there will be a mid year report to enable member scrutiny. Functions have also to be clearly delegated as required. This has been included in **Appendix E** to this report.

2.3 The Revised CIPFA Prudential Code

A revised Prudential Code was also issued by CIPFA. The authorised limit for external debt, operational boundary for external debt and actual debt indicators which were previously reported as part of the Prudential Indicators have been moved from being Prudential Indicators to being Treasury Indicators.

2.4 Revised Investment Guidance

The Department of Communities and Local Government has recently completed a consultation exercise on draft revised investment guidance which is to result in the issue of further investment guidance to take effect from 1 April 2010. Further details on this will be reported to members in the mid year treasury management report.

2.5 The Balanced Budget Requirement

It is 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 means that increases in capital expenditure must be limited to a level whereby charges to revenue caused by borrowing and any increases in running costs are limited to a level which is affordable within the projected income of the Council for foreseeable future. This is confirmed in the Council Tax report.

3. The Revised Treasury Management Policy

3.1 The Council defines the policies and objectives of its treasury management activities as the management of investments, the authority's cash flows, its banking, money and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance with those risks.

3.2 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.

3.3 The Council is aware 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

3.4 It is a statutory requirement that this Council may only borrow in sterling except with the consent of HM Treasury.

4. Treasury Limits and Indicators for 2010/11 to 2012/13

4.1 There are a number of treasury indicators which previously formed part of the Prudential Code, but which the new guidance has linked to the Treasury Management Code and guidance. Local authorities are still required to "have regard" to these treasury indicators.

The key treasury indicators which are still part of the Prudential Code are:

- Authorised limit for external debt;
- Operational boundary for external debt; and
- Actual external debt.

In addition the following treasury management indicators are part of the Treasury Management Code:

- Upper limits on fixed interest and variable interest exposures;
- Upper and lower limits to the maturity structure of borrowing; and
- Upper limits of the total of principal sums invested longer than 364 days.

4.2 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 'Authorised Limit' represents the legislative limit specified in the Act.

4.3 It is proposed that the 'Authorised Limit' remain at £200m for the years 2010/11 – 2012/13. The capital programme report that is also being considered on this agenda is proposing a total capital programme that will lead to a borrowing requirement of around £130m by the end of 2012/13. As this is a legal limit, sufficient headroom has been provided to ensure that any major capital investment projects where financing has yet to be finalised, are not restricted by this statutory limit. This limit would cover any short-term borrowing for cash flow purposes as well as long term borrowing for capital projects, finance leases, PFI initiatives as well as any unforeseen incidences where expected capital receipts are not forthcoming due to unexpected economic factors.

4.4 The code also requires the local authority to set an operational limit for the 2010/11 financial year and the following two financial years for its total external debt. The operational limit is the level at which the Council would actually need to borrow in any one year to meet its capital financing requirements for the capital programme.

A borrowing limit would apply to both short-term and long term borrowing, and would be used to address cash flow issues in the short-term and capital financing issues in the longer term.

Full details of the Council's Treasury Indicators have been included in **Appendix A** to this document.

5. Current Portfolio Position

5.1 Investments and borrowing balances

The table below shows the Council's current treasury portfolio position at 31 December 2009:

	31 December 2009	**Average rate of return/payment**
	£ Million	**%**
Investments		
Council in House Team	26.61	2.83
Scottish Widows	18.72	3.07
Investec Asset Management	37.96	1.19
Royal Bank of Scotland (RBS)	15.0	3.10
TOTAL INVESTMENTS	**98.29**	**2.55**
Borrowing		
Fixed rate Funding PWLB	30.0	4.06
Market	20.0	3.98
TOTAL BORROWING	**50.0**	**4.02**

5.2 The sum invested broadly represents the reserves, provisions and balances that the Council holds together with the impact of any difference between the collection of income and expenditure (working capital). From 1 April 2010, the pension fund cash currently managed by the Council will no longer be reported as part of the Council's balance.

5.3 Based on its cash flow forecasts, the Council anticipates its fund balances by 31st March 2010 to be approximately £110 million**.** This is based upon the 2009/10 capital programme expenditure profile and both agreed and forecast use of reserves and other balances.

6. Prospects for Interest Rates

6.1 The level of, and fluctuations in interest rates, are a key consideration for any treasury management strategy. In 2009/10, bank rate remained unchanged. This position is expected to continue till Q3 2010/11 with expectations tending towards a further 1.0% increase in the later part of 2011 and 2% increase in 2011/12. The Council has ensured that sufficient provision has been made in the Medium Term Financial Strategy to cover this reduction in income for 2010/11. The Council invests it's portfolio throughout the year, and the level of interest rates determines the interest receipts that are generated to support ongoing revenue expenditure. The Council has set it budget based on a return of 1.5%. In order to meet this target, the Council will avoid locking into longer term deals while investment rates are historically low unless exceptionally attractive rates are available which make longer term deals worthwhile.

6.2 There is a downside risk to any forecast provided for 2010/11 if the recovery from the recession proves to be weaker and slowly than currently expected. To arrive at an expectation of interest rates for 2010/11, and beyond, a number of judgements and assumptions are made; in addition this involves a high degree of uncertainty.

6.3 The Council has appointed Sector Treasury Services as treasury adviser to the Council, part of the service provided assists the Council in formulating a view on interest rates. **Appendix B** draws together a number of current City forecasts for short-term, variable and longer fixed interest rates.

7. Borrowing Strategy and Borrowing Requirement

7.1 The decision to borrow is a treasury management decision and is taken by the Chief Financial Officer under delegated powers of the Council's constitution. The key objective of the Council's borrowing strategy is to secure long term funding for capital projects at borrowing rates that are as low as possible.

7.2 Borrowing Objectives
The Council will look to reducing the revenue cost of borrowing to its minimum by appraising new sources of finance and loan instruments in order to achieve minimum risk while having regard to the maturity profile of loans. The authority will consider borrowing fixed rate funds when interest rates are low and variable rates when borrowing or investment cash rates are high and expected to go lower When the market becomes favourable to borrow the Council may have to fund known capital needs ahead of that need in order to take advantage of lower fixed term rates and market opportunities.

7.3 Borrowing Options
The option to borrow is always a financing option. The decision to borrow is being taken in consultation with our expert treasury advisors. A mix between Public Works Loans Board (PWLB) and money market loans is recommended by our treasury management advisers.

With current investment rates still low, in contrast to current borrowing rates, the Council can also consider the use of its internal investments as an alternative to borrowing, as returns on investments will be low in 2010/11.

7.4 Portfolio Mix
The Council's commenced borrowing in 2008/09, the Council will continue to seek the advice of its treasury management advisers on the best portfolio mix. It is advised that at any one point in time the Council should have a portfolio where no more than 10% of its debt matures in any one year. As the Council has only recently started to borrow, this objective will only be achieved as a portfolio of debt has been built up (i.e. the Council has more than 10 loans on it's books). The Chief Financial Officer monitors the portfolio mix on a periodical basis.

7.5 Risk Evaluation
The Council will continue to borrow in tranches as the opportunities arise in the market in order to reduce financing risk.

7.6 Portfolio Life
In any debt portfolio there will be a range of maturities out as far as 70 years. As part of the proactive management of the debt portfolio these loans will be considered for debt restructuring through monitoring and where a financial benefit can be made, debt will be restructured within acceptable risk parameters in the treasury management strategy. The debt maturity profile will not stay static because when opportunities arise they are taken in order to reduce the council's underlying financing costs which will impact on the revenue budget.

7.7 The table below indicates the estimated range of total long term borrowing requirement (cumulative) from 2010/11 to 2012/13:

Borrowing Requirement	2009/10 £m Estimate	2010/11 £m Estimate	2011/12 £m Estimate	2012/13 £m Estimate
CUMULATIVE TOTAL	80 - 90	105-115	120-130	125-135

7.8 The borrowing rate forecast for 2010/11 from Sector is as follows:

- The 50 year PWLB rate is expected to fluctuate by 0.05% between quarters 1 and 2, while Q3 and Q4 is expected to fluctuate by 0.15% and 0.10%. Q1 4.70% , Q2 4.75%, Q3 4.90% and Q4 5.00%;
- Similarly, the 25 year PWLB rate is expected to increase progressively from 4.60% to 5.0% in Q4;
- The 10 year PWLB rate is expected to rise from 4.05% in Q1 2010 to 4.15% in Q2, 4.30% in Q3 and 4.45% in Q4;
- The 5 year PWLB rate is expected to rise progressively from 3.05% in Q1to 3.40% in Q3 to reach 3.60% in Q4;
- Rates are expected to gradually rise during the year;
- Variable rate borrowing is expected to be cheaper than long term borrowing, the council will consider but amount borrowed will not exceed the treasury limits for variable borrowing;
- The forecast indicates that the borrowing strategy for 2010/11 should be to take long term borrowing at the start of the financial year because rates are expected to rise during the year; and
- There is expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between PWLB new borrowing and early repayment rates is considerably less. This maximise the potential for debt rescheduling and allow the council to rebalance its debt maturity profile.

7.9 In summary, considering the factors set above, the recommended borrowing strategy:
- Borrowing long term will be done at the early part of the financial year should rates remain in line with expectations;
- Cash balances, not identified for longer term investments, may be used to finance capital expenditure on a temporary basis as current interest rates are such that returns on cash balances are still considerably low in comparison to borrowing rates;

- PWLB 25 year borrowing rather than 50 year borrowing will be considered as the spread between PWLB new borrowing as early repayment rates is considerably less; and
- Borrowing will be in fixed rate market loans at 25 – 50 basis points below the PWLB target rate should rates remain in line with expectations.

7.10 External and Internal Borrowing

The revised Prudential Code paragraph 73 now requires each authority to explain its policy on gross and net debt, where there is a significant difference between them.

Comparison of gross and net debt positions at year end

	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Actual External Debt (gross)	50	80	110	125	130
Cash Balances	123	110	89	98	105
Net Cash (debt)	73	30	(21)	(27)	(25)

Pension fund cash no longer included in council's balance for 2010/11

- The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £39.8m
- The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments.
- The Council during the financial year will carefully consider the difference between borrowing rates and investment rates to ensure that the Council obtain value for money.
- Low bank rates are still expected for most of 2010/11 and over the next two years in comparison to external borrowing rates this means the council will continue to utilise internal borrowing rather than external borrowing as the opportunity arises.
- Short-term savings as a result of avoiding new long term external borrowing in 2010/11 will also be considered in conjunction against the potential for incurring additional long term extra costs be delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly lower.

8. Borrowing in Advance of need and Debt Rescheduling Strategy

8.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance of need will be considered carefully by the S151 Officer to ensure that this is in line with the financing of the capital programme (the "capital financing requirement"), that value for money can be demonstrated and that the Council can ensure the security of such funds.
In coming to a decision whether borrowing will take place in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding; and
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

8.3 The key decision in debt restructuring will be the ability to demonstrate value for money. The decision to reschedule will be taken by the S151 Officer under delegated powers of the Council's constitution and in consultation with the council treasury management advisers.

Significant interest savings may still be achievable through using Lenders Option Borrowers Option (LOBOs) loans and other market loans in rescheduling exercises.

8.4 Due to the short-term borrowing rates being expected to be considerably cheaper than long term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short-term debt. However these savings will be considered in light of their short-term nature and likely cost of refinancing these short-term loans once they mature. The Council is aware that any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile

9. Minimum Revenue Provision (MRP) Strategy

9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to match the years over which such assets benefit the local community through their useful life. The manner of spreading this cost is known as an annual "Minimum Revenue Provision". There is no requirement for the Council to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding year. In addition the share of the Housing Revenue Account CFR is not subject to an MRP charge.

9.2 There are four main options recommended in the guidance under which a local authority may consider its MRP to be prudent:

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). Guidance recommends that this approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the annual borrowing allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet. The Council went into debt in 2008/09.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments; and
b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

9.3 Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE).

9.4 Minimum Revenue Provision Policy Statement 2010/11

The Council has implemented the new MRP guidance and will assess their MRP for 2010/11 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council will adopt option 3 as set out above and will charge MRP over the asset life method.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

10. Annual Investment Strategy and Investment Policies

10.1 The Council will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to this guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

(a) the security of capital; and
(b) the liquidity of its investments; and

The London Borough of Barking and Dagenham will aim to achieve optimum returns on its investments after careful consideration of level of security and liquidity. The Council will not lower its counterparty ratings in order to optimise its return on investments. Borrowing of monies purely to reinvest is unlawful, the Council will not engage in such activities.

10.2 Investment instruments identified for use in the financial year are listed in **Appendix C** to this report. Under the requirements of the Investment Guidance issued by the Department of Communities, investments need to be classified into specified and non-specified. The Annual Investment Strategy states which investments the Council may use during the financial year. It is a requirement to report these investments to the Assembly for approval. It is the delegated responsibility of the S151 Officer to determine the exact instrument to use within these classifications. Appendix C also sets out:

- The procedures for determining the use and limits of each asset class of investments (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments"; and
- The maximum periods for which funds may be prudently committed in each asset class.

10.3 For 2010/10, the Council will continue its strategy to invest in products which most importantly minimise risk and obtain favourable returns. The Council will maintain a mixed portfolio of investments in 2010/11. Where the maximum returns can be achieved and on the advice of our advisers, we may seek to invest in structured investment products and money market funds. In addition our external fund managers may seek to invest in pooled money market funds with permitted weighted average maturity of less than 1 year so can be classified as specified investments. Gilts investments will continue to remain on a segregated basis.

10.4 The monitoring of counterparties will be kept under continuous review. Due to the current economic crisis and issues within the banking sector, all investments made in house will be held in UK institutions. The Council's external fund managers will operate within the credit ratings and parameters set in this strategy, but will have the flexibility to invest in institutions outside of the UK.

10.5 Each year, Council Officers consult with its treasury management advisor to determine appropriate benchmarks for investment returns. External fund managers have been informed of these proposed benchmarks and have set their investment strategies accordingly. They are as follows:

Fund Manager	2010/11 Benchmark	Reason
• Investec Asset Management • Scottish Widows (SWIP)	1.50% (or 3 month LIBID, whichever is higher) 1.50%, (or 3 month LIBID, whichever is higher)	• Bank Rate now 0.5% as at January 2010 • Bank Rate Forecast to remain within the range of 0.5% and expected to increase to 1.5% in the later part of 2010. • Consideration given to restrictions in counterparties • Maximising of Council's return on investments at minimal risk • Maximisation of the Council's returns in order to meet budget pressures

The power to change benchmarks as above is delegated to the Chief Financial Officer.

10.7 The Council may permit its external fund managers to use instruments such as gilts, bonds, pooled funds, callable investments and other longer-dated instruments. Limits will have to be established in the use of such instruments to ensure that the Council can have access to its investments. These Treasury Management limits can be set as either a £ amount or percentage.

10.8 Investments defined as capital expenditure
The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

10.9 A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for ‘specified’ and ‘non-specified’ investments.

10.10 Provisions for Credit-related losses
If any of the Council’s investments appeared at risk of loss due to default, (i.e. this a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount. Where there is a loss of the principal amount borrowed due to the collapse of the institution, the Council will seek legal advise and consult with its advisers.

10.11 Investment instruments identified for use in the financial year are listed below under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices.

10.12 The Council’s external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers also stipulate guidelines on duration and other limits in order to contain and control risk.

10.13 Investment Objectives
All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. The Council’s investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. We have set challenging targets for 2010/11, and the risk of balancing returns with prudence will need to be managed.

10.14 The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

11. Security of Capital: the Creditworthiness Policy

11.1 For the Council the duty to protect capital is paramount, improved performance is only achieved by taking effective decisions regarding the timing and duration of the investment rather than making ‘higher-risk’ investments to generate higher returns.

11.2 Monitoring of credit ratings:

- The Council has had regard for the new CIPFA guidance on credit ratings. This suggests that the lowest rating out of all agencies should be used to define creditworthiness. This is deemed to be unworkable as the Council’s in-house team only invests in UK institutions and this would leave too few lenders on the list.

- The Council will use the creditworthiness service provided by Sector Treasury Services. Data is provided on a weekly basis. This service enables the Council to have access to ratings from all three credit rating agencies – Fitch, Moodys and Standards and Poors in addition data which reviews market indicators. This will be reviewed on an ongoing basis. The Council believes that this will provide sufficient control over creditworthiness.

- The Council will continue to keep up to date with market information, market data and information on government support for banks and credit ratings of that government support as an additional means of monitoring its counterparties. Where in doubt, the Council will seek the advice of its treasury adviser.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty /investment scheme as a new investment will be withdrawn immediately;

- If counterparty is down graded but still meets the Council's minimum criteria, it would be watched closely and any further downgrading would result in the Council removing it from its lending list. It should however be noted that where the Council enters in to a fixed term deposit, the borrower has no obligation to entertain any request for premature redemption, the Council may ask for the deposit to be broken, however this is not market practice and the institution is under no obligation to comply.

- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the S151 Officer for approval;

- The Council will establish with its fund managers their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity; and

- The Council will continue its approach of investing no more than 20% of its aggregate funds to any particular counterparty or £15m which ever is higher.

11.3 Country Limits and Use of Foreign Banks

To ensure that the Council's investments is not concentrated in too few counterparties or countries, the Council will invest in strong UK and non UK foreign banks which meet its minimum criteria, however the Council's internal team will only invest in UK banks and building societies except on the advise of the Council's treasury management adviser. A suitable spreading approach in itself is likely to be sufficient given the safeguard already given to the creditworthiness service.

The Council's fund managers may invest in foreign banks which in their judgement have sound standing, meet the Council's minimum credit rating criteria and whose sovereign have a AAA long-term credit rating. No more than 30% of the Council's total aggregate funds will be invested in any one country apart from the UK.

11.5 *UK banking system support package*

The Council will continue to use counterparties under the UK banking system support package. However where the Council will lend to these banks it would not only rely on the implicit guarantee given by the government but in addition consider the credit ratings of the individual bank and UK government sovereign rating.

11.6 *Use of other Local Authorities*

Where the investment is a straightforward cash loan the Local Government Act 2003 s13 suggest that the credit risk attached to English and Welsh local authorities is an acceptable one. The Council will limit its lending to local authorities in England and Wales.

11.7 *Use of Multilateral Development Banks*
S15 of the Local Government Act 2003 SI 2004 no. 534 amended provides regulations to clarify that investments in multilateral development banks were not to be treated as being capital expenditure. Should the Council invest in such institutions then only such institutions with AAA credit rating and government backing would be invested in consultation with the Council's treasury management adviser and the S151 Officer.

11.8 Use of Brokers
The Council deals with many of its counterparties directly through its daily dealings, from time to time, the Council will use the services of brokers to act as agents between the Council and its counterparties when lending or borrowing.

12. Use of External Fund Managers

12.1 It is the Council's policy to use external fund mangers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep the Council's investment strategy. The level of external balances is under constant review as the level of capital receipts diminishes. The performance of each manager is challenged quarterly by the S151 Officer or delegated officers and the Council's treasury advisers.

12.2 The Council currently uses two fund managers, Scottish Widows (SWIP) and Investec Asset Management. £56m of the Council's funds are currently managed on a discretionary basis by Investec and Scottish Widows. In selecting the institutions to include in their counterparty listing it is the external manager's policy to maintain a list of counterparties and assets based on the Council's set minimum criteria. This list is approved by their specialist credit team who independently research all potential counterparties before inclusion and regularly monitor and update to ensure that any change in credit worthiness and valuation is captured.

In order to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, to ensure that the Council's cash is not pooled with the Pension Fund's cash, the Council will designate the cash managed by one its external managers for the purpose of the pension fund. It is anticipated that the £18m currently managed by SWIP is designated for this purpose and a top up provided to the sum of the difference between the pension fund cash and the cash managed by SWIP.

12.3 Both fund managers provide the Council with a periodic outlook on fund returns. For 2010/11, the worst case is 1.0%, and best case is 2.0%. These scenarios are based on the recent trend of the MPC rate which has continuously remained at 0.5% with no predicted rate change in the next two quarters.

12.4 Investec will be employing a strategy which will enable them buy shorter dated Certificate of deposits because in the current economic climate the upside for capital gains is limited. Investec will continue to use other instruments like, Floating Rate Notes, supranational bonds in addition to gilts in other to increase returns of the portfolio. However, they expect to see higher yield before establishing a position.

In choosing its counterparty, in addition to the Council's minimum credit rating, Investec employs further credit rating criteria which considers the size of the institution and activity in Sterling markets.

12.5 Scottish Widows provide the Council with a forecast of their returns on the Council's investments based on the use of STL and GLF funds as the main part of the Council's portfolio. In the an environment where interest rates have moved to extremely low levels and is expected to remain so for most of 2010/11 financial year, SWIP will be permitted to use UCIT funds as part of the existing portfolio asset allocation. The absolute return bond fund and the credit advantage fund may also be used in the course of the year if advantageous.

12.6 Pension Fund Cash
London Borough of Barking and Dagenham will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st Jan 2010, therefore from 1st April 2010 will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority after 1 April 2010 will comply with the requirements of SI 2009 No 393. From 1 April 2010, the Pension Fund Cash will be separated from the remainder of the Council's cash and investment balances in accordance with latest guidance and best practice.

13. Reporting of Treasury management

13.1 Mid way in the financial year and at the end of the financial year, the Council will report on its investment and borrowing activity as part of its Mid Year Treasury Management Report and also its Annual Treasury Management Report and.

14. Consultation

The following were consulted during the preparation of this report

Councillor G Bramley – Cabinet Member for Finance and Human Resources
Tracie Evans – Director of Finance and Commercial Services
John Hooton – Strategic Financial Controller
Miriam Adams – Treasury and Pension Manager
Winston Brown – Legal Partner
External – Sector Treasury Services

15 Background Papers Used in the Perpetration of the Report:

Local Government Act 2003
CIPFA – Revised Prudential Code for Capital Finance in Local Authorities
CIPFA – Revised Treasury Management in the Public Services
Draft capital programme 2010/11 – 2012/13
Monthly Treasury Management Report
Draft Medium Term Financial Strategy 2010/11 to 2012/13

16 Appendices:

Appendix A - The Treasury Management Indicators and Prudential Indicators for 2010/11

Appendix B - Interest Rate Forecasts And Economic Background
Appendix C – Investment Classification
Appendix D - 2010/11 Treasury Management Practices and Scheme of Delegation
Appendix E - Reporting Arrangements

Appendix A

The Treasury Management Indicators and Prudential Indicators for 2010/11

1. Introduction

1.1 There are a number of treasury indicators which previously formed part of the prudential code, but which are now more appropriately linked to the Revised Treasury Management Code and guidance. Local authorities are still required to "have regard" to these treasury indicators.

1.2 The treasury indicators which are still part of the Prudential Code are:

- Authorised Borrowing Limit
- Operational Borrowing Boundary
- Adoption of the CIPFA Treasury Management Code
- Fixed Interest Exposure
- Variable Interest Exposure
- Maturity Structure of Borrowing
- Investments over 364 days

2. External Debt

2.1 In the medium term local authorities only have the power to borrow for capital purposes.

2.2 External borrowing and investment arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In accordance with best professional practice the Council does not associate borrowing with particular items or types of expenditure. This means that in day to day cash management no distinction can be drawn between revenue or capital funds nor, similarly, between Housing Revenue Account and the General Fund. It should be noted that the code requires that off-balance sheet private finance initiative (PFI) schemes will be treated as outside the prudential indicator for debt, by absorbing revenue resources, they will have to be taken into account in determining the proposed level of capital investment is affordable.

2.3 **The authorised limit –** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by members. It reflects the statutory limit determined under section 3 (1) of the Local Government Act 2003.

2.4 **The operational limit –** This represents a limit beyond which external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitor indicator to ensure the authorised limit is not breached. The limit is usually lower than the authorised limit.

2.5 At any point in time there are a number of cash flows in and out of the Council's bank account which are caused by the differential timing of payments and receipts from the Council. It is possible that an unanticipated cash movement could lead to a requirement for temporary borrowing. Such decisions will need to take into account the affordability of borrowing, but it is important that the operational boundary leave sufficient “headroom” for these eventualities.

2.6 The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Executive is recommended to approve the authorised limits and operational boundary set out in Table 1.

3. Prudential Indicators

Table 1: Operational Limit and Authorised Borrowing Limits

	2008/09 £’million	2009/10 £’million	2010/11 £’million	2011/12 £’million	2012/13 £’million
Borrowing	50.0	85.0	115.0	130.0	135.0
Other long-term liabilities	Nil	Nil	Nil	Nil	Nil
Operational Boundary on Borrowing	50.0	85.0	115.0	130.0	135.0
Authorised Limit (affordable limit)	150.0	200.0	200.0	200.0	200.0

3.1 These limits give the Chief Financial Officer authority to undertake borrowing for cash flow purposes. For this reason, in taking its decisions on this budget report, the Council is asked to note that the authorised limit for 2008/09 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Adoption of the CIPFA Treasury Management Code (Prudential Indicator 13)

3.2 The authority has an integrated treasury management strategy and has adopted the *CIPFA Code of Practice for Treasury Management in the Public Sector.* Treasury management creates the link between an authority’s CFR and the structure of its external debt. Like the operational boundary, these are of direct relevance to day to financial management.

3.3 The new *Prudential Code for Capital Finance in Local Authorities* supplements this by requiring council’s to calculate specific indicators to demonstrate the prudence of its treasury management policies. These are detailed below:

Fixed Interest Exposure

3.4 Borrowing at fixed interest rates limits the Council’s risk from a treasury management perspective, and the upper limit for exposure to fixed interest rates is therefore 100%.

Variable Interest Exposure

3.5 The Council will not be exposed to variable interest rate risk since all its borrowing will be at known overdraft rates (if this occurred) and fixed rates.

Maturity Structure of Borrowing

3.6 This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period. The objective is to ensure that loans in the portfolio mature at different times to limit the exposure to prevailing interest rates when the need to re-finance occurs. The Council's policy is to ensure that over the long term; only 10% of the portfolio will mature in any one year. This goal will only be achieved once the authority has taken on 10 loans as clearly it will not be possible to achieve before this point.

Investments over 364 days

3.7 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. The risk inherent in the maturity structure of the Council's investments is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

Table 2: Principle Sums Invested

	2009/10 £'million Estimate	2010/11 £'million Estimate	2011/12 £'million Estimate	2012/13 £'million Estimate
Total Investments (average)	100	100	100	100
Maximum invested over 1 year	25	25	25	25

3.8 These limits are derived from current projections on interest receipts and spending on the capital programme. They also include a level of contingency to take into account an element for new capital bids, and potential shortfalls in receipts from the disposals programme.

4. Summary Assessment

4.1 The Prudential Indicators confirm that the proposed treasury management strategy, in conjunction with the Council's budget strategy and capital programme, is in compliance with the key themes of the Prudential Code, those being prudence, affordability and sustainability.

4.2 The Council needs to confirm it is happy with the arrangements, whereby the Chief Financial Officer has authority, in exceptional circumstances, to borrow up to £200 million. It is anticipated that in practice that such borrowing is unlikely to be necessary.

4.3 The treasury management indicators will be regularly monitored throughout 2010/11.

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Appendix B

INTEREST RATE FORECASTS AND ECONOMIC BACKGROUND

Forecasts on interest rates that are key considerations for the Council's Treasury Management Strategy. In coming to a decision about its benchmark for 2010/11, the Council reviewed a number of interest rate forecasts. Appendix B draws together a number of current city banks and academic institution forecasts for short term bank rate and longer term fixed interest rates. The table below gives the central view of these forecasts:

	Q/E1 2010 %	Q/E2 2010 %	Q/E3 2010 %	Q/E4 2010 %	Q/E1 2011 %	Q/E2 2011 %	Q/E3 2011 %	Q/E4 2011 %	Q/E1 2012 %	Q/E2 2012 %	Q/E3 2012 %	Q/E4 2012 %	Q/E1 2013 %
Bank Rate	0.50	0.50	0.75	1.00	1.50	2.25	2.75	3.25	3.50	3.75	4.25	4.25	4.50
5 yr PWLB	3.05	3.20	3.30	3.40	3.60	3.85	4.15	4.55	4.60	4.80	4.80	4.85	4.85
10yr PWLB	4.00	4.05	4.15	4.30	4.45	4.60	4.80	4.90	5.00	5.10	5.10	5.15	5.15
25 yr PWLB	4.55	4.65	4.70	4.80	4.90	5.00	5.05	5.10	5.20	5.30	5.30	5.35	5.35
50 yr PWLB	4.60	4.70	4.75	4.90	5.00	5.10	5.15	5.20	5.30	5.40	5.40	5.45	5.45

Economic background

The long awaited start of economic growth following the recession eventually came in quarter 3 2009 in the US and the EU. However, there was disappointment that the UK failed to emerge from recession in quarter 3.

UK

- GDP growth will almost get back to the long term average of about 2.5% in 2011;
- Sterling has depreciated by 25% since the peak in 2007 and is likely to stay weak;
- CPI inflation expected to peak @ 2.5% in early 2010 after the rise in VAT in January but then to fall to a trough near 1.5% in early 2011 and to stay below 2% for the rest of 2011;
- The first Bank Rate increase is expected in Q3 2009[ad1];
- Gilt yields are currently artificially low due to the Bank of England's Quantitative Easing operations. Long gilt yields are therefore forecast to reach 6% during 2011; and
- The major risk to this scenario would be a lack of supply of bank credit. However, it is felt that the Bank of England is on alert to ensure that this does not happen and would continue various measures to assist the expansion of credit.

Summary

- The current economic cycle is not a normal business cycle but a balance sheet driven cycle. Repayment of debt will therefore act as a major head wind to the required increase in demand in the economy. GDP growth is forecast to reach only +1.5% in 2011;

- Long PWLB rates will **fall** from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels; and

- There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -
  - degree of speed and severity of fiscal contraction after the general election
  - timing and amounts of the reversal of Quantitative Easing,
  - speed of recovery of banks' profitability and balance sheet imbalances
  - changes in the consumer savings ratio
  - rebalancing of the UK economy towards exporting and substituting imports

Appendix C

Investment Classification

The 2004 Investment Guidance encourages forms of investment offering high security and liquidity. This achieved by making a distinction between ‘specified and ‘non-specified’ investments. Generally Equity type investments are defined as capital expenditure, the effect of which is a reduction of the authority’s scope for funding capital projects. The exemption if the shares and bonds are acquired through collective investment schemes such as unit trusts. The Council is part of a collective group of Council’s who have investment properties in the old GLA.

The classification of investments as specified and non-specified is constantly reviewed. The Chief Financial Officer ensures that investment products are fully understood and the risks and compliance with CIPFA Code of Practice on Treasury Management is full appraised and understood.

The choice of minimum credit rating criteria has been set in consultation with the Council’s treasury management advisers and regard to the Revised CIPFA guidance.

The Council relies on the credit ratings of the three main agencies in addition to other factors. Ratings are reviewed on a weekly basis with daily changes to counterparty ratings also monitored.

Specified Investments:

All investments which fall under the classification of specified investments will be sterling denominated and have maturities up to maximum of 364 days, meeting the Council’s minimum ‘high’ rating criteria at the time of investment.

Organisation/Instrument	Minimum Credit Criteria										MAX PERIOD	USE
	FITCH				MOODY			STANDARD & POOR		CDS DATA		
	Fitch S/T	Fitch L/T	FITCH INDV SUPP	FITCH SUPP STATUS	M L/T	M S/T	M FRS	S&P L/M	S&P S/T			
Term deposits – banks and building societies (including nationalised banks and banks with Government guarantee)	F1+	A+	C	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	In-house
Term deposits – banks and building societies (including nationalised banks and banks with Government guarantee)	F1+	A+	D	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	Fund Managers
Development Banks	F1+	AAA	N/A	N/A	Aaa	P-1	N/A	AAA	A-1+	N/A	12 months	Fund Managers
Certificates of deposits issued by banks and building societies	F1+	AA	C	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	Fund Managers
Structured deposits	F1+	AA	B	1	Aa	P1	A	AAA	A-1+	In Range/ Monitoring	12 months	In-house and Fund Managers
Term deposits – UK government	Government Backed - Not Credit Rated											In-house and Fund Managers
Term deposits – other Local Authorities	High Security - Although not Credit Rated											In-house
Term deposits – UK Nationalised banks and building societies	F1+	AA-	D/E	1	Aa3	P-1	A	A+	A-1	In Range/ Monitoring	12 Months	In-house and Fund Managers
Debt Management Agency Deposit Facility	Government Back Agency – Not Credit Rated											In-house and Fund Managers
Money Market Funds	F1+	AAA	N/A	N/A	Aaa			AAA				In-house and Fund Managers
UK Government Gilts	AAA											Fund Managers
Gilt Funds and Bond Funds	AA											Fund Managers
UK Treasury Bills	Government Backed Instruments – Not Credit Rated											Fund Managers
Short term funds	AAA											In-house and Fund Managers
Pooled funds	AAA											In-house and Fund Managers

Where bank has government backing then the Council will use Counterparties whose credit rating meets its other minimum criteria but has Moody's FRS of D or E.

Non-Specified Investments:
Where investments are held for longer than 365 days they are classified as Non-specified Investments. Strong credit quality is a major factor in the choice of lender.
A maximum of 40% will be held in aggregate in non-specified investments

Organisation	Minimum Credit Criteria			Use	Max. maturity period
	Short-term	Long-term	Individual	Support Rating	**Max 5 of total council investments**
Term deposits – UK government (with maturities in excess of 1 year)	Govt Backed-Not Credit Rated			In-house	2 Years
					25%
Term deposits – other LAs (with maturities in excess of 1 year)	High Security – although not Credit rated			In-house	2 Years
					25%
Term deposits – banks and building societies (with maturities in excess of 1 year)	F1+	AA or equivalent	B	In-house	2 Years
				2	25%
Certificates of deposits issued by banks and building societies	F1,or equivalent			Fund managers	2 Years
				2	40%
UK Government Gilts with maturities in excess of 1 year	AAA			Fund Managers	3 Years
					40%
Structured deposits with variable rates and variable maturities – callable and flappable deposits, range trades and snowballs	F1+	AA or equivalent	B	In-house	2 Years
				2	25%
Pooled Funds various	F1+	AA or equivalent	B	Fund Managers	2 Years
				2	40%
Bonds issued by multilateral development banks	AAA		Government guarantee	In-house on a 'buy-and-hold' basis. Also for use by fund managers	3 Years

			managers	40%
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers		2 Years
				40%
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers		2 Years
				40%
Bond Funds	AAA	Fund Managers		25%/2 years

Non- Specified Investments with Maturities of Any period

From time to time in periods of volatile interest rates, the Council may invest in non-specified investments with variable rates and variable maturities

Organisation	**Minimum Credit Criteria**	**Use**	**Max. maturity period**		
	Short-term	Long-term	Individual	Support Rating	**Max 5 of total council investments**
Fixed term deposits with variable rate and maturities (structured deposits) – banks and building societies (with maturities in excess of 1 year)	F1+	AA or equivalent	B	In-house/ Fund Manager	2 Years
				2 /Fund Manager	25%
Commercial Paper issuance by UK banks covered by UK Government guarantee	F1,or equivalent	AA / government guarantee		Fund managers	2 Years
				2	25%
Commercial Paper other	F1+	AA or equivalent	B	In-house	2 Years
				2	25%
Local Authority mortgage guarantee scheme	AAA	Fund Manager./ In-house	5 Years		
			25%		

The Council will not trade in corporate bonds issued by either banks covered by UK Government guarantee or other banks, floating rate notes and invest the Council's funds in property funds as these investments could constitute capital expenditure.

Alternative Credit ratings available from Moody's & Standard & poor
Eg Ftich F1- Moody's P1 , Fitch A – Moody's Aa3

Key
Short Term Ratings – F1 – Indicates the strongest capacity for timely repayment

Long Term Ratings – A – Capacity for payment of commitments considered strong
AA – Very strong capacity for payment of commitments
AAA –Exceptionally strong capacity for payment of commitments

Individual Rating B – Strong organisation , no major concerns .
C – Adequate organisation , some concerns regarding its profitability and Balance sheet.
Support Rating 2 – High probability of external support
3 – Moderate probability of support

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Appendix D

2010/11 TREASURY MANAGEMENT PRACTICES AND SCHEME OF DELEGATION

Legislative Background

1.1 The Revised CIPFA Treasury Management Code of Practice 2009 requires the Council to produce its treasury management scheme of delegation. The Council has adopted the Revised CIPFA Treasury Management Code of Practice and Cross- Sectoral Guidance Notes 2009. In doing so has stated how it adheres to these principles by stating the manner in which the Council will manage and control its treasury management activities.

1.2 Key principles are as follows:

- That there should be in place formal and comprehensive objectives, polices and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;

- That polices and practices should make clear that the effective management and control of risk. This Council will continue to balance risk against return and ensure that at all times ensure that security of capital is paramount in its treasury management activities; and

- The Council acknowledges the pursuit of value for money and identify suitable performance measures.

Treasury Management Scheme of Delegation

1.3 The Assembly will receive reports and be responsible for:

- Approval of annual or revised Treasury management strategy;
- Approval of the annual Treasury Management Outturn report;
- Approval of the Council's adopted clauses, treasury management policy statement and treasury management practices; and
- Delegates responsibilities for the implementation and regular monitoring of its treasury management polices and practices to the Executive.

1.4 The Executive will be responsible for:

- Approval of the division of responsibilities and make recommendations to the Assembly;
- receiving and reviewing regular monitoring reports including the mid year Treasury Management Report and acting on recommendations; and
- reviewing changes to the treasury management policy and procedures and making recommendations to the Assembly.

1.5 The Public Accounts and Audit Committee is responsible for the scrutiny of treasury management.

1.6 The S151 Officer is the responsible Officer for treasury management in the Council. Detailed responsibilities for Officers in the Council is included further in this report in

TMP 5 .

1.7 Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management polices and objectives and how it will manage and control those activities.

TMP 1 - Treasury risk management
TMP 2 - Best value and performance measurement
TMP 3 - Decision–making and analysis
TMP 4 - Approved instruments, methods and techniques
TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6 - Reporting requirements and management information arrangements
TMP 7 - Budgeting, accounting and audit arrangements
TMP 8 - Cash and cash flow management
TMP 9 - Money laundering
TMP 10 - Staff training and qualifications
TMP 11 - Use of external service providers
TMP 12 - Corporate governance

1. TMP1 - RISK MANAGEMENT

1.1. General Statement

It is the responsibility of the S151 Officer and relevant delegated officers, to design, implement and monitor all arrangements for the identification, management and control of treasury management risk and report at least annually on the adequacy/suitability thereof. The S151 Officer will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect. This will be done in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

1.2 Managing Treasury Management Risks

The Council identifies treasury risk within its business planning process. Risks identified are managed, given sufficient priority and contained. The Council's Finance department as part of its business planning process has in place the following:

- Well documented records of the standing of counterparties it does or may deal with in the form of a counterparty listing produced weekly and continues to access independent sources of advice and information in the form of Sector's daily credit rating mail shots which amalgamates information from the three rating agencies;
- Keep an effective cash and cash flow forecasting and monitoring system which identifies the extent to which the Council is exposed to the effects of potential cash flow variations;
- The Council accesses financial market commentaries and reviews on the likely future courses of interest rate, exchange rates and inflation through its treasury adviser. In doing this the Council is able to access information on changes in credit ratings;
- The Council fully analyses and records processes pursued in executing transactions to enable the council keep an audit trail;
- The Council keeps comprehensive records of its treasury management contractual liabilities, responsibilities and investments with counterparties; and
- The Council received daily PWLB rates and other information about the fluctuations in the market of its investments, borrowings and other financing. This allows it to make informed assessment of the potential to invest or borrow.

The following risks have been included in the Council's Finance risk matrix. These are monitored corporately in addition to monitoring of treasury management risks by the treasury team.

Details of Risk or Opportunity Including Consequences	Controls
Movement in interest rates, receipts and payables leading to fluctuations in interest receipts and payables that could impact on budgetary position	Active Management of Investments and borrowing
Counterparty risk – the risk that investments are made in institutions that are not creditworthy	Limits are set for counterparties in terms of both credit ratings and % of funds invested in the Treasury Management Strategy
Regular review of treasury management	Regular quarterly meetings
Bank bankruptcy leading to destabilisation of the Council's supporting infrastructure	Review at contract time for new bankers Procurement process will include due diligence Regular quarterly liaison meetings
Failure to submit grant claims within set deadlines lead to loss of reputation and potential reduction in income	Continuing monitoring to identify where submissions are not made by deadlines Regular monitoring
Failure to pay creditors correct sum in timely manner leading to penalties in interest payments	Provide service departments with list of late payments

1.3. Liquidity
The Council will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives.

1.4. Interest Rates
The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements
The Council will achieve the above objectives by the prudent use of its approved financing and investment instruments, methods and techniques primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. These policies will be established each year through the approval by the Council of the indicators required under *The Prudential Code for Capital Finance in Local Authorities*.

It is not Council's policy not to use financial derivatives and other instruments for interest rate management.

1.5. Exchange rates
The nature of the Council's activities means that it is unlikely that it will be exposed

to exchange rate risks.   It could, however, arise from the receipt of income or the incurring of expenditure in a currency other than sterling.
Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.6. Inflation
The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its overall exposure to inflation. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations. During periods of unexpected, potentially advantageous changes in the level or structure of inflation. The key consideration is that investments reap the highest real rate of return while taking into consideration risk, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.7. Credit and Counter-party Policies
The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter-party lists and limits reflect a prudent attitude towards organizations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4. It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. This is set out in Schedule 1.

1.8. Refinancing
The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the money so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.
It will actively manage its relationships with its counter-parties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.
The affordability of the revenue consequences of capital financing will be assessed through compliance *The Prudential Code for Capital Finance in Local Authorities*.

1.9. Legal and Regulatory
This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP 1 (credit and counterparty risk management), it will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.
The Council recognises that future legislative or regulatory changes may impact on

its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council. The Council will report such changes in its annual treasury management strategy.

1.10. Fraud, Error and Corruption, and Contingency Management
The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

1.11. Market Value of Investments
This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations.

2. TMP 2 - VALUE FOR MONEY AND PERFORMANCE MEASUREMENTS

2.1. The Revised Code of Practice advocates the principle that all public service organisations should create appropriate measures by which the performance of their treasury management activities can be measured in order to judge whether they are gaining value for money from the resources devoted to these activities.

2.2. Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. It set annual challenging benchmarks for its fund managers and internal team. It measures and reports performance against benchmark on a monthly basis as well as annually. As required in the Revised Code, the Council will include in its Mid Year report how it has performed against set benchmark. The Council is also a member of the CIPFA benchmarking Club.

2.3. The Council's policy is to appoint full-time professional cash/external investment fund managers to manage surplus funds beyond the core funds that it manages itself. It will comply with the Local Organisations (Contracting out of Investment Functions) Order 1996 [SI 1996 No 1883]. The Code of Practice places an obligation on the organisation to monitor the performance of the fund managers. The Council has appointed Sector Treasury Services Limited to assist in this respect.

3. TMP 3 - DECISION-MAKING AND ANALYSIS

3.1. The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The factors that should be taken in to account are set in Schedule 3.

4. TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. The Council will undertake its treasury management activities within the limits and parameters defined in TMP1 Risk Management.

4.2. From April 2004 the choice of instruments has been determined the Annual Investment Strategy that complies with guidance issued by the Secretary of State.

5. TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1. The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

5.2. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies the S151Officer and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury manager and relevant treasury management staff. This is achieved by the *Statement of Duties/Responsibilities for Each Treasury Post* set out in Schedule 3

5.3. If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasury Manager will ensure that the reasons are properly reported in accordance with TMP6 and the implications properly considered and evaluated.

5.4. The Treasury Manager will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

5.5. The Treasury Manager will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

5.6. The Treasury Manager will fulfil all delegated responsibilities in accordance with the organisation's policy and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

5.7. It is also the responsibility of the Treasury Manager to ensure that the Organisation 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.

6. TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1. The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

6.2. As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs; and
- An annual investment strategy setting out the procedures for determining the use of each class of investment and appropriate limits to be applied to each class.

6.3. The content of these reports is set out in TMP 6.

7. TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1. The S151 Officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Best Value and Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Treasury Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

7.2. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

7.3. The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8. TMP 8 - CASH AND CASH FLOW MANAGEMENT

8.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes.

8.2. Cash flow projections will be prepared on a regular and timely basis, and the Treasury Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 liquidity risk management.

8.3. Each month the Council will report on whether there has been any breach of limits. The Council's cashflow will:

- Review and maintain adequate overdraft facilities and maintain contingency arrangements;
- Maintain optimum arrangements for managing and investing surplus cash;
- Review its pricing and charging policy;
- Make effective use of clearing bankers' services, particularly concerning the clearance of funds and low cost funds transmission; and
- Monitor the level of debtors and creditors to enable corrective action for cash flow purposes.

9. TMP 9 - MONEY LAUNDERING

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

10. TMP 10 - STAFF TRAINING AND QUALIFICATIONS

10.1. This Council recognises the importance of ensuring that all staff involved in the treasury management functions are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

Statement of Professional Practice

10.2. The S151 Officer has a professional obligation to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staffs are appropriately trained.

10.3. Other staff involved in treasury management activities who are members of various professional accounting bodies must also comply with the CIPFA Statement of Professional Practice, the Provisions of the Money Laundering Regulations 2007 and 2009 CIPFA Guidance on Combating Financial Crime.

11. TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

11.1. The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. However the Council as required by the Revised Code of Practice will ensure that the skills of the in-house team should be maintained in order to ensure that the services provided can be challenged and ensure that undue reliance is not placed on the external service providers.

11.2. When the Council employs such service providers, it will ensure it does so for reasons that will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the Council's procurement and legislative requirements will always be observed.

11.3. The Council will consider direct dealing with its counterparties in the first instance, however where it is advantageous or cost effective to use the services of a broker, the services of brokers where appropriate, however these services are not subject to a tender process.

12. TMP 12 - CORPORATE GOVERNANCE

12.1. The Council has adopted and has implemented the key recommendations of the Revised Code *of Practice on Corporate Governance*. As part of this, the Council will:

- Publish its treasury management strategy on its website
- Establish clear treasury management policies, separate roles and ensure that relationships within and outside the organisation are properly managed.
- Ensure equality in treasury management dealings and keen competition
- Management and administration of treasury management will be robust, rigorous and disciplined
- The S151 Officer will be responsible for ensuring that systems are in place

12.2. This, together with the other arrangements which will be detailed in the schedule to the TMP's, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

TREASURY MANAGEMENT PRACTICE SCHEDULES

SCHEDULE 1
Criteria to Be Used For Creating/ Managing Approved Counterparty Lists/Limits

The S151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.

The S151 Officer is responsible for applying the stated credit rating criteria for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

The following organizations are to be approved organizations for investment purposes:-

- UK Local Authorities;
- UK Clearing banks and Building Societies which meet the Council's minimum credit rating;
- Any foreign bank on the Bank of England's Banking Act 1987: Authorised Institutions List which meet the Council's minimum credit rating criteria. The Council's internal treasury team does not invest in foreign banks.; and
- Any other body approved in The Local Authorities (Capital Finance) (Approved Instruments) Regulations 1990.

In practice, the in-house team will only invest in UK institutions. External fund manager can invest in foreign banks provided they operate within the criteria set in the Council's treasury management strategy.

The maximum period and level for investments will set by the S151 Officer.

SCHEDULE 2

Issues to be addressed in decision making.

In respect of every decision made the organisation will:

- Above all be clear about the nature and extent of the risks to which the organisation may become exposed;
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- Be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping;
- Ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded; and
- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the organisation will*:*

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

In respect of investment decisions, the organisation will:

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions; and
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

SCHEDULE 3

STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

The S151 Officer

The responsibilities of this post will be to: -

- In setting the prudential and treasury management indicators, the S151 Officer will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council 's financial plans are affordable, prudent and sustainable in the long term;
- Establish a measurement and reporting process that highlights significant variations from expectations;
- Recommend clauses, treasury management policy / practices for approval, reviewing the same regularly , and monitoring compliance;
- Submit regular treasury management policy reports to the Assembly and Executive of the Council as appropriate;
- Submit budgets and budget variations;
- Receive and review management information reports;
- Review the performance of the treasury management function and promote best value reviews;
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensure the adequacy of internal audit, and liaising with external audit;
- Ensuring that the system is specified and implemented; and
- Recommend the appointment of external service providers.

The S151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The S151 Officer may delegate his power to borrow and invest to members of his staff. The Group Manager Accounting and Technical, Treasury & Pensions Manager, Treasury Accountant or staff authorised to act as temporary cover for leave and sickness. All transactions must be authorised by at least two of the named officers above.

The S151 Officer and the Divisional Director Legal and Democratic Services (as the Monitoring Officer) will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Divisional Director Legal and Democratic Services and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

It is also the responsibility of the S151 Officer to ensure that the Organisation 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.

Treasury Manager
The responsibilities of this post will be: -

- Adherence to agreed policies and limits;
- Managing the overall treasury management function;
- Supervising treasury management staff;
- Ensuring appropriate segregation of duties;
- Monitoring performance on a day-to-day basis;
- Submitting management information reports to the S151 Officer;
- Maintaining relationships with third parties and external service providers and reviewing their performance; and
- Identifying and recommending opportunities for improved practices.

The Divisional Director Legal and Democratic Services (as Monitoring Officer)
The responsibilities of this post will be: -

- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice; and
- Giving advice to the S151 Officer when advice is sought.

SCHEDULE 4

Information Requirements

Annual Treasury Management Strategy Statement

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Executive for approval before the commencement of each financial year.

The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates.

The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

The Treasury Management Strategy Statement will include specific reference to the need to comply with the balanced budget requirement per the Local Government Finance Act

1992 Section 33. S32 also requires a local authority to calculate its budget requirement for each financial year including the revenue costs which flow from capital financing decisions. Considerations of these costs will be informed by the indicators that have to be calculated according the CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

ANNUAL AND MID YEAR REPORTING ON TREASURY MANAGEMENT ACTIVITY
Annual and Mid Year reports will be presented at the earliest practicable meeting. These reports will include the following as appropriate:-

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- transactions executed and their revenue (current) effects;
- report on risk implications of decisions taken and transactions executed;
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- monitoring of compliance with powers delegated to officers;
- degree of compliance with the original strategy and explanation of deviations;
- explanation of future impact of decisions taken on the organisation;
- measurements of performance; and
- report on compliance with CIPFA Code recommendations.

SCHEDULE 5
Procedures for Establishing Identity / Authenticity of Lenders

The Council does not accept loans from individuals. Decision to borrow will be done in consultation with the Council's treasury management advisers. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).

Appendix E

Reporting Arrangements:

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement (revised)	Full council	Initial adoption in February 2010
Treasury Management Strategy / **Annual Investment Strategy / MRP policy**	Full council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – **mid year report**	Executive	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – **updates or revisions at other times**	Full council	As required
Annual Treasury Outturn Report	Full council	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Director of Finance & Commercial Services or Delegated Officer	
Treasury Management Practices	Director of Finance & Commercial Services or Delegated Staff	Annually before the start of the year
Scrutiny of treasury management strategy	Audit / Scrutiny Committee	Annually before the start of the year
Scrutiny of treasury management performance	Audit / Scrutiny Committee	Annually

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