TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2010/11

1 SUMMARY

1.1 This report covers the adoption of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice, sets out the Council's treasury strategy for borrowing and investment for 2010/11 and the policy for calculating the Minimum Revenue Provision.

2 INTRODUCTION

Revised CIPFA Treasury Management Code of Practice 2009

2.1 In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes. It is a requirement of the Code that this Council should formally adopt the Code and the revised Treasury Management Policy Statement.

2.2 The revised Code has emphasised a number of key areas including the following:-

a) All councils must formally adopt the revised Code and four clauses

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds.

d) Responsibility for risk management and control lies within the organisation.

e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.

f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.

h) The main annual treasury management reports must be approved by full council.

i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance.

j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.

k) Treasury management performance and policy setting should be subjected to scrutiny.

l) Members should be provided with access to relevant training.

m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

n) Responsibility for these activities must be clearly defined within the organisation.

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

Adopting the Code

2.3 In line with the revised Code, this report sets out below the four amended clauses so that they can be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes. The Code recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses

(1) This organisation will create and maintain, as the cornerstones for effective treasury management:-

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

(2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and

plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

(3) This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to (the Head of Finance, as the Chief Finance Officer), who will act in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(4) This organisation nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.4 The revised Code also includes an amended version of the treasury management policy statement incorporating just three clauses and a revised definition of treasury management activities as follows:-

Treasury Management Policy Statement

(1) This organisation defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

(2) This organisation 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 organisation.

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

2.5 The above clauses and Treasury Management Policy Statement will be incorporated into the Financial Regulations in the Council's Constitution, before the start of the new civic year.

3 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2010/11

3.1 The Strategy is appended to this report and has been prepared in accordance with the revised Code. CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. This has been taken into account in preparing the attached Strategy.

3.2 The Treasury Management Strategy will be approved annually by the full Council and there will also be a mid year report. In addition there will be a mid- year monitoring report and a report to Audit Committee on the implementation of the revised Code and amended Treasury Management Practices. The report to the Audit Committee will address any outstanding issues from implementing the Code, such as training for Members. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3.3 This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	Council/ Committee/Officer	Frequency
Treasury Management Policy Statement (revised)	Full Council	Initial adoption in 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	Executive	As required
Annual Treasury Outturn Report	Full council	Annually by 30 June after the end of the year
Treasury Management Practices	Head of Finance, Audit & Performance Management	Annually by 31 March
Scrutiny of treasury management performance and policy	Audit Committee	Annually in September

Revised Investment Guidance

3.4 The Department of Communities and Local Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. A separate report will be made to members to inform them when this guidance has been finalised.

It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

4 MINIMUM REVENUE PROVISION (MRP)

4.1 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 and therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.

4.2 Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The Council implemented the new Minimum Revenue Provision guidance in 2008/09 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.

4.3 The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made.

4.4 For 2010/11 it is proposed to use the Capital Financing Requirement Method which is based upon a charge of 4% of the CFR, which is the measure of the authority's outstanding debt liability, including internal borrowing, as shown on the balance sheet. By showing that Useable Capital Receipts are applied before use (an internal accounting arrangement), the Council's CFR is reduced to zero which means that no MRP is required for 2010/11.

5 RISK IMPLICATIONS

5.1 It is necessary to outline the risks involved in the investments made by the Council. There is of course always a risk that a building society or bank may fail during the duration of an investment but this is considered less likely where the institution has a minimum credit rating as specified in our Investment Strategy. Although the Government have provided assistance and guarantees where banks have encountered problems which have threatened their future, this cannot be guaranteed for the future.

5.2 With regard to deposits for more than one year, the advantage from a treasury management point of view is that there is a known rate of return over the period that the monies are invested which aids forward planning. There is however the increased risk due to the longer time span that a) the institution fails or b) interest rates rise in the meantime. Therefore no investments for more than 1 year will be made without the advice of our Treasury Consultants on the likely movement of interest rates over the period of the proposed investment.

5.3 The Council may use Money Market Funds from AAA-rated institutions for cash balances. These are funds with the highest credit rating, providing excellent security for the council's money. Surplus balances not invested in pure cash deposits can earn a rate similar to 1 month London Interbank Bid Rate, and funds can be accessed with minimal notice. Returns are not fixed, however, and will rise and fall in line with the market. As a result, these funds will not be used to take a view on the likely future path of interest rates, or as a protection against falling rates. Their natural use is for balances too small to place with banks and building societies, or as an alternative to a bank call account. No investments will be made in Money Market Funds without the advice of our Treasury Consultants.

5.4 The treasury management function cannot take place without an agreed Treasury Management Strategy in place before the start of the financial year.

5.5 Reputation Risk -The Authority is responsible for managing the investment of public funds and must be seen to be adopting a pragmatic and prudent approach.

6 RESOURCE IMPLICATIONS

6.1 Investment income used to be a material source of income to the Authority. The amount of income generated is dependent upon interest rates and level of balances. The fall in investment income has been taken into account in the Medium Term Financial Strategy.

7 RECOMMENDATION

7.1 It is proposed that the Council **RESOLVES**

(1) To adopt the revised Code and 4 clauses outlined in this report.

(2) To delegate responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive

(3) To delegate responsibility for the execution and administration of treasury management decisions to the Head of Finance, Audit and Performance Management.

(4) To nominate the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies

(5) To amend the Financial Regulations to include an amended version of the treasury management policy statement and a revised definition of treasury management activities as outlined in this report.

(6) To adopt the reporting requirements outlined in this report.

(7) To agree the Treasury Management Strategy Statement and Annual Investment Strategy.

(8) To agree the Authorised Limit and Operational Boundary for external debt as laid down in the Strategy and delegate authority to the Head of Finance, Audit and Performance management, within the total limit for the individual year, to effect movement within the agreed limits for borrowing.

(9) To agree the use of the Capital Financing Requirement method for calculating the Minimum Revenue Provision for 2010/11.

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Background Papers:-

CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes

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TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 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 the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as paragraph 9 of this report); 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 suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon the HFAPM's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.

1.4 The strategy covers:-

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

2 BALANCED BUDGET REQUIREMENT

2.1 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, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

(1) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and;

(2) Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3 TREASURY LIMITS FOR 2010/11 TO 2012/13

3.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

3.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

3.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit can be found in of this report.

4 CURRENT PORTFOLIO POSITION

4.1 The Council's treasury portfolio position at 04/01/10 consisted of investments totalling £8.5m, with an average interest rate of 1.14%. There was no external debt.

5 BORROWING REQUIREMENT

5.1 The Council's borrowing requirement for the period 2009/10 to 2012/3 is currently forecast to be zero.

6 PRUDENTIAL AND TREASURY INDICATORS FOR 2010/11-2012/13

6.1 Prudential and Treasury Indicators as set out below are relevant for the purposes of setting an integrated treasury management strategy.

PRUDENTIAL INDICATORS					
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	Actual	Probable outturn	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital expenditure	2,901	1,732	1,593	672	595
Ratio of financing costs to net revenue stream	(7%)	(2%)	(2%)	(3%)	(3%)
Net borrowing requirement	£000	£000	£000	£000	£000
Brought forward 1 April	0	0	0	0	0
Carried forward 31 March	0	0	0	0	0
In year borrowing requirements	0	0	0	0	0
Capital financing requirement as at 31 March	430	0	0	0	0
Incremental impact of capital investment decisions -	£ p	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	(0.13)	(0.06)	0.13	0.05	0.02

TREASURY MANAGEMENT INDICATORS					
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	Actual	Probable outturn	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Authorised limit for external debt					
Borrowing	8,100	7,200	7,200	6,600	6,700
Other long term liabilities	-	-	-	-	-
TOTAL	8,100	7,200	7,200	6,600	6,700
Operational boundary for external debt					
Borrowing	3,360	3,520	3,690	3,860	4,040
Other long term liabilities	-	-	-	-	-
TOTAL	3,360	3,520	3,690	3,860	4,040
Actual external debt	0	0	0	0	0
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowings/investments	-	3,000	3,000	3,000	3,000

OR					
Upper limit for variable rate exposure					
Net principal re fixed rate borrowings/investments	9,568	9,500	9,600	10,800	12,300
Upper limit for total principal sums invested for over 364 days	-	3,000	3,000	3,000	3,000

Maturity structure of fixed rate borrowing during 2010/11		
	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%
No borrowing expected to be taken in 2010/11		

Authorised Limit

6.2 The authorised limits set out are consistent with the Council's current commitments, existing plans and the proposals for capital expenditure and financing and with its approved treasury management policy statement and practices. This limit should not be exceeded and is therefore based on a prudent assessment taking account of the worst-case scenario. They are currently based on an assumption that there will be no long term borrowing to fund capital expenditure and that the only borrowing will be to fund short term cash flow needs.

Operational Boundary

6.3 The operational boundary limits set out are based on the authorised limits but reflect the more likely level of borrowing to meet cash flow requirements, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. This indicator may be breached temporarily for operational reasons.

Capital Financing Requirement (CFR)

6.4 The CFR is an indication of the Council's requirement to borrow for capital purposes. As the Council is using capital receipts to fund the capital programme, the CFR is forecast to remain at zero.

6.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on

19 December 2002 by the full Council and the revised Code will be adopted on 26 January 2010.

7 PROSPECTS FOR INTEREST RATES

The Council has appointed Sector Treasury Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Their current view, based on the assessment of various forecasts, is average rates for the financial years as follows:-

- **2009/2010 0.50%**
- **2010/2011 1.50%**
- **2011/2012 3.50%**
- **2012/2013 4.50%**

7.1 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

8 BORROWING STRATEGY

8.1 The Sector forecast for the PWLB new borrowing rate is as follows:-

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50yr PWLB rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

8.2 The Council has no plans to borrow funds as the Capital Programme is fully funded from Capital receipts and the cost of borrowing exceeds the interest earned on investments.

Sensitivity of the forecast

8.3 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts. if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the possible action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

- The general aim of this treasury management strategy is to reduce the level of investments in order to reduce the credit risk incurred by holding investments. However, another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

- Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure. This would maximise short term savings.

- However, short term savings by avoiding new long term external borrowing in 2010/11 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

Policy on borrowing in advance of need

8.4 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 will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

8.5 In determining whether borrowing will be undertaken in advance of need the Council will:-

- 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
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

9 DEBT RESCHEDULING

9.1 As the Council has been debt free since September 2007, this is not an issue.

10 ANNUAL INVESTMENT STRATEGY

Investment Policy

10.1 The Council will have regard to the Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that 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:-

- the security of capital and
- the liquidity of its investments.

10.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

10.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

10.4 Investment instruments identified for use in the financial year are listed below:-

- Term Deposits – UK Government
- Term Deposits – Other Local Authorities
- Term Deposits – Bank and Building Societies
- Debt Management Agency Deposit Facility (Government managed)
- Money Market Funds

Creditworthiness policy

10.5 This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:-

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

10.6 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

10.7 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:-

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

10.8 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue weighting to just one agency's ratings.

10.9 All credit ratings will be monitored monthly. However, the Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

10.10 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

Investment limits

10.11 In order to minimise risk and maintain diversity, the Council will have a limit on the amount which can be placed with an institution. This limit will also apply to groups, for example the Bank Santander includes Abbey National, Cater Allan and Alliance & Leicester. Because the value of investments held at any one time can vary between by up to £6m, depending on cash flow requirements it is not considered practical to have a percentage limit. The limits will be linked to duration and be as follows:-

Sector Colour Coding	**Maximum Duration**	**Maximum Investment**
Purple	2 years	£3m
Blue (nationalised or semi nationalised UK Banks)	1 year	£4m
Orange	1 year	£1m
Red	6 months	£3m
Green	3 months	£6m
No Colour	not to be used	0

10.12 In addition, the following limits will be applied:-

Organisation	**Maximum Duration**	**Maximum Investment**
Debt Management Office (Government Body)	3 months	£14m
Co-operative Bank – Reserve account. The Council's main banker	On call (can be withdrawn immediately)	£2m
Money Market Funds – AAA long-term credit rating	On call (can be withdrawn immediately)	£3m

Country limits

10.13 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) The list of countries that qualify using this credit criteria as at the date of this report are shown below:-

Credit Scoring - AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

Credit Scoring - AA+

- Australia
- Belgium

10.14 A country limit for all countries except the UK will be set at £3m for up to one year.

Investment Strategy

10.15 The Council's funds are mainly cash-flow derived. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

10.16 Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 3 of 2010 and then to rise steadily from thereon.

10.17 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

10.18 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

10.19 The Council will also seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year investment report

10.20 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

10.21 The Council uses Sector Treasury Services as its external treasury management advisers.

10.22 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

10.23 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will 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.

Scheme of delegation

10.24 Under the revised Code, the Council is required to specify its Scheme of Delegation for Treasury Management and the responsibilities of the Section 151 Officer and this is show below:-

Responsible Committee/Officer	**Responsible for:**
Council	• receiving and reviewing reports on treasury management policies, practices and activities • approval of annual strategy. • budget consideration and approval • receiving the end of year report on treasury management

Responsible Committee/Officer	**Responsible for:**
Executive	• approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices • approval of the division of responsibilities • receiving and reviewing regular monitoring reports and acting on recommendations
Head of Finance, Audit and Performance Management (S151 Chief Finance Officer)	• recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance • submitting regular treasury management policy reports • submitting budgets and budget variations • receiving and reviewing management information reports • reviewing the performance of the treasury management function • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • ensuring the adequacy of internal audit, and liaising with external audit • approving the selection of external service providers and agreeing terms of appointment
Audit Committee	• reviewing the treasury management policy and procedures and making recommendations to the responsible body