TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2012/13

1 SUMMARY

1.1 This report sets out the Council's Treasury Management Strategy for borrowing and investment for 2012/13.

1.2 Treasury management is defined as:-

"The management of the local 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."

1.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2 INTRODUCTION

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:-

- The Prudential and Treasury Indicators and Treasury Strategy (this report).
- The Mid Year Treasury Management Report which gives progress against the indicators reported and enables revisions to made to the policies where required.
- Annual Strategy report (reported to Council in June). This provides details of actual performance compared to the estimates.

2.2 The suggested Strategy for 2012/13, in respect of the following aspects of the treasury management function, is based upon the Head of Finance's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

2.3 The Strategy covers:-

Capital Issues

- The capital plans and the prudential indicators;
- The Minimum Revenue Provision (MRP) Strategy

Treasury Management Issues

- Treasury indicators which will limit the treasury risk and activities of the Council;
- The current treasury position;
- The borrowing strategy;
- Prospects for interest rates;
- Policy on borrowing in advance of need
- The investment strategy
- Creditworthiness policy
- Policy on use of external service providers.

2.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

2.5 This Strategy reflects the changes introduced in the revised Prudential Code, Treasury Management Code and Guidance Notes published by CIPFA in November 2011.

3 CAPITAL PRUDENTIAL INDICATORS FOR 2012/13 TO 2014/15

3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.2 **Capital Expenditure**. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below also shows how these plans are being financed and any shortfall that will require borrowing:-

£000s	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Expenditure	1,753	1,985	1,013,	653	605
Financed by:					
Capital receipts	**786**	**1,627**	**863**	**503**	**455**
Capital grants	**967**	**359**	**150**	**150**	**150**

3.3 **The Council's Borrowing Need (the Capital Financing Requirement - CFR)**. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

3.4 Following accounting changes arising from the implementation of International Financial Reporting Standards, elements of some of our outsourced contracts, e.g. Recycling, now have to be treated as Finance Leases and brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme in effect include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £1.36m of such schemes within the CFR.

3.5 The current CFR projections are in the table below:-

£000s	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
CFR	2,130	2,130	2,130	2,130	2,130
Movement in CFR		**-**	**-**	**-**	**-**

4 MRP POLICY STATEMENT

4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

4.2 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

4.3 There is an historic adjustment arising from the former Housing Revenue Account which results in a negative CFR for the purposes of the MRP calculation. This has been reviewed for 2012/13 and is still considered to be applicable and therefore a zero MRP charge will apply for 2012/13.

4.4 Annual repayments in respect of finance leases arising from outsourced contracts are applied as MRP.

5 OTHER INDICATORS

The Use of the Council's Resources and the Investment Position

5.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £000s	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Fund balances/ reserves	3,712	3,189	2,941	2,882	3,018

Year End Resources £000s	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital receipts	2,331	1,005	488	324	211
Total core funds	**6,043**	**4,194**	**3,429**	**3,206**	**3,229**
Working capital*	33	33	33	33	33
Expected investments	**5,402**	**4,000**	**4,000**	**4,000**	**4,000**

*Due to the balances that make up working capital being unpredictable, the estimates for future years have been kept static at the 2010/11 actual figure.

Affordability Prudential Indicators

5.2 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.3 **Actual and estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Ratio of Financing Costs to Net Revenue Stream	(0.7)	(0.6)	(0.8)	(0.9)	(1.2)

The estimates of financing costs include current commitments and the proposals in this strategy.

5.4 **Estimates of the incremental impact of capital investment decisions on the band D council tax.** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this strategy compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period:-

£	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Council tax - band D	0.22	0.00	0.09	0.07	0.04

6 TREASURY MANAGEMENT STRATEGY

6.1 The capital expenditure plans set out in Section 3 provide details of the capital investment activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 The Council's treasury portfolio position at 6 January 2012 comprised:-

	Balance £000s	Average Rate %
Borrowing	-	-
Investments	6,300	1.65

6.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. As there is no borrowing, this has not been breached.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

6.4 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. It reflects the most likely level of borrowing to meet cash flow requirements. This indicator may be breached temporarily for operational reasons if there are unusual cash movements.

Operational boundary £000s	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total	4,420	4,620	4,840	5,070

6.5 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit can only be revised by the full Council. It reflects the level of external debt which could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

6.6 The Authorised and Operational limits are based on the assumption that there will be no long term borrowing to fund capital expenditure and any borrowing will be to fund short term cash flow requirements. The limits include balance sheet liabilities such as finance leases and creditors.

Authorised limit £000s	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total	6,900	6,200	6,100	6,300

7 PROSPECTS FOR INTEREST RATES

7.1 The Council has appointed Sector as its treasury advisor 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:-

Annual Average Forecast Rates (%)					
Year	Bank Rate	Investments	PWLB Borrowing		
			10 year	25 year	50 year
2011/2012	0.50	0.70	3.3	4.2	4.3
2012/2013	0.50	0.70	3.4	4.3	4.4
2013/2014	0.88	1.00	3.7	4.6	4.7
2014/2015	2.1	1.60	4.5	5.1	5.2

7.2 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

7.3 Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

7.4 This challenging and uncertain economic outlook has a several key treasury mangement implications:-

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2012/13;

- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;

- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

8 BORROWING STRATEGY

8.1 The Council's borrowing requirement for the period 2012/13 to 2014/15 is currently forecast to be zero.

8.2 However the level of receipts available for funding the capital programme is set to run out in 5 years, and therefore borrowing will be the only way in which the programme can be financed. Currently the future use of two of the Council's largest assets is being reviewed, and therefore once these are decided, the use of borrowing will be reconsidered. As yet this is not included within any indicators.

8.3 The Head of Finance as the Chief Finance Officer (Section 151 Officer) decides on the most appropriate method of financing the Capital Programme. In the current economic environment with low interest rates, it may be more cost effective to finance capital expenditure by external borrowing but this will be on the advice of our treasury management advisors and will be reported to Members if this action is considered further.

8.4 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

8.5 Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.

- *if it was 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 likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to Members at the next available opportunity.

8.6 It is a requirement under the new Prudential Code to identify the difference between gross debt (i.e. total borrowing) and net debt (borrowing less investments). As there is no external borrowing, this indicator is zero.

Treasury Management Limits on Activity

8.7 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

8.8 The limit indicators are shown separately for borrowing and investments. Fixed rates for investments or borrowing for a period of less than one year are treated as variable by the Prudential Code.

Interest rate Exposures £000s	2012/13	2013/14	2014/15
	Upper	Upper	Upper
Limits on fixed interest rates:			
Borrowing	2,000	2,000	2,000
Investments	3,000	3,000	3,000
Limits on variable interest rates:			
Borrowing	2,000	2,000	2,000
Investment	10,000	10,000	10,000

Maturity Structure of fixed interest rate borrowing during 2012/13		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

Maturity Structure of variable interest rate borrowing during 2012/13		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	0%	0%

9 Policy on borrowing in advance of need

9.1 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 will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

9.2 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
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

10 ANNUAL INVESTMENT STRATEGY

Investment Policy

10.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

10.2 In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

10.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

10.4 Other information sources used will include the financial press and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

10.6 The intention of the strategy is to provide security of investment and minimisation of risk.

10.7 The specified Investment instruments identified for use in 2012/13 are listed below:-

- Debt Management Agency Deposit Facility (Government Managed)
- (Government Managed)
- Term deposits – UK government
- Term deposits – other Local Authorities
- Term deposits – banks and building societies
- Money Market Funds
- Treasury Bills
- Certificates of Depost

10.8 With the banking institutions still in a large state of flux, it is becoming increasingly hard to find bodies with which to invest that meet the Council's investment criteria. Treasury bills and Certificates of Deposit have been included in the above list of Instruments in order to enable the Council to invest with the higher rated financial organisations that would not otherwise deal with the level of funds we have available. This will allow some flexibility to be available if the investment markets become more difficult.

Creditworthiness policy

10.9 This Council uses the creditworthiness service provided by Sector. This service 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 Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

10.10 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads 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. The Council is satisfied that this service now gives a much improved indication of security for its investments.

10.11 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.

10.12 In order to minimise risk and maintain diversity, the Council will have a limit on the amount which can be placed in 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 time can vary 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

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	3 months	£14m
Co-operative Bank – Reserve Account.	On call (can be withdrawn immediately)	£2m

Organisation	Maximum Duration	Maximum Investment
The Council's main banker		
Money Market Funds – AAA long-term credit rating	On call (can be withdrawn immediately)	£3m per fund
Certificates of Deposit and Treasury Bills.	Will follow the Sector Colour Coding limits as per the above table.	Will follow the Sector Colour Coding limits as per the above table.

10.13 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

10.14 All credit ratings will be monitored as new information comes to light. 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 Councils lending list.

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

11 INVESTMENT STRATEGY

Country Limits

11.1 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).

11.2 All Countries other than the UK will be subject to a £3m investment limit for a duration of up to one year.

Investment Management

11.3 The Council does not use a fund manager and funds are managed in-house. Investments will accordingly be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

11.4 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:-

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

11.5 There are downside risks to these forecasts (i.e. timing of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

11.6 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:-

2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

11.7 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

11.8 For its cash flow generated balances, the Council will also seek to utilise its business reserve accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

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

12 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

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

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

12.3 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.

13 SCHEME OF DELEGATION

13.1 Under the Code, the Council is required to specify its Scheme of Delegation for Treasury Management and the responsibilities of the Head of Finance, as the Section 151 Officer, and this is shown below:-

(i) 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.

(ii) 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.

(iii) Audit committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Head of Finance (Section 151 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.

14 RISK IMPLICATIONS

14.1 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.

14.2 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.

14.3 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.

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

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

15 RESOURCE IMPLICATIONS

15.1 All interest paid and received is accounted for within the General Fund. Investment income used to be a material source of income to the Council. 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.

16 LEGAL IMPLICATIONS

16.1 This strategy complies with the statutory requirements set out in the Local Government Act 2003 and associated guidance and regulations.

17 RECOMMENDATION

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

(1) To agree the Treasury Management Strategy Statement and Annual Investment Strategy including the investments instruments, limits and delegations contained within the report

(2) To agree the MRP policy for 2012/13.

(3) To agree the Authorised Limit and Operational Boundaries for external debt as laid down in the report.

Yvonne Woodward

Head of Finance

Background Papers:-

CIPFA Prudential Code for Capital Finance in Local Authorities (Revised Edition 2011)

CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (Revised Edition 2011)

CLG's Guidance on Local Government Investments March (Second Edition 2010)

For further information please contact Mrs Carrie Cox (Financial Services Manager/ Chief Accountant) on:-

Phone: 01702 318164
Email: carrie.cox@rochford.gov.uk

If you would like this report in large print, Braille or another language please contact 01702 318111.