AGENDA
ITEM 6

Report to: Audit Committee
Cabinet
Council

Date of Meeting: 14th January 2009
18th January 2009
4th February 2009

Report of: Interim Head of Finance
Title: Treasury Management 2008/09 and Strategy for 2009/10

1. SUMMARY

1.1. This report sets out for members' information the Council's treasury management activities during 2008/09 to date, and proposes a Treasury Management and Investment Strategy for 2009/10. Certain changes to the existing policy are proposed in the light of the increase in funds being managed, the recent banking crisis and other developments.

2. RECOMMENDATIONS

2.1 That Audit Committee considers the report and identifies any comments it wishes to draw to the attention of Cabinet

That Cabinet

2.2 Notes the activities for 2007/08 and 2008/09 to date on the Treasury Management Strategy.

And recommends to Council

2.3 That Members formally adopt the CIPFA Code of Practice on Treasury Management outlined in paragraph 3
2.4 That Members approve the Prudential Indicators for 2009/10 shown in paragraph 4.4
2.5 That Members approve the Treasury Management Practices for 2009/10 contained in Appendix A.
2.6 That Members approve the revised Treasury Management and Investment Strategy for 2009/10 contained in Appendix B

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Report approved by: *Director of Finance / Interim Head of Finance*

3 Background

3.1 The CIPFA Treasury Management Code of Practice recommends that all public service organisations adopt as part of their standing orders and financial regulations the following four clauses:

- The adoption of the of the key recommendations contained within the Code with regard to
  - Ensuring formal objectives, polices, practices, strategies and reporting arrangements are in place for the effective management and control of treasury management activities
  - Polices and practices should make clear that the effective management and control of risk are the prime objectives of our treasury management activities
  - That pursuit of best value in treasury management and performance measures are important tools to employ in support of their business and service objectives : and that within the context of effective risk management their treasury management polices should reflect this
  - That in order to achieve the above the organisations should adopt the code, adopt a Treasury Management Policy Statement and follow the Code concerning the creation of Treasury Management Practise (TMP's) which outline the Councils approach to Treasury Management
- The organisation will create and maintain a treasury management statement , stating the polices and objectives of its treasury management activities and suitable TMP's setting out how the organisation will seek to achieve those polices and objectives and prescribing how it will manage and control those activities
- The organisation will receive reports on its treasury management policies practices and activities
- The organisation will name the officer who will implement and monitor the TMP's and policies and who will execute the Treasury Management Decisions

3.2 Furthermore the Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 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) this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.4 There is a formal requirement of the Council to adopt the above principles, on an annual basis, which it has previously done.

4.0 Analysis

4.1 **Treasury Management Performance 2007/08**

4.1.1 The Treasury Management Strategy for 2007/08 reaffirmed that the Authority had no requirement to undertake long term borrowing to finance Capital expenditure and no such new borrowing was undertaken.

4.1.2 The Council commenced the year with £29.6million of investments and ended the year with £49.1 million of investments as at 31st March 2008. This increase was largely as a result of the Housing Stock transfer to Watford Community Housing Trust for which the Council received a net receipt of approximately £23 million.

4.1.3 In accordance with Councils investment strategy this money was invested in banks and building societies resulting in an average daily investment of around £45.4million achieving an average interest rate of 5.59%. This rate exceeded the 3month LIBOR rate (the rate at which the banks lend money between themselves) by 0.7%, achieving an interest receipt of £2.6million some £300k over budget.

4.1.4 In addition to the money market deals referred to in 4.1.3 above the Council also makes use of the overnight deposit facility with its bankers the Co-Operative Bank Ltd. In 2007/2008 the average amount invested overnight was approximately £4.4million and £245k Interest was earned with an average rate of 5.55%. Members should note that although this bank does not meet the Councils minimum credit rating they are are used for this purpose because they are the Councils bankers. Generally overnight deposits will be kept at the minimum amount required for efficient cash flow management.

4.2 Treasury Management Performance 2008/2009

4.2.1 Most of this financial year has been dominated by the financial crisis in the Global Economy , most notably the collapse of the Icelandic Banks in which many local authorities held investments. Watford Borough Council made investments in these banks in previous years but no further deposits were made from as long back as March 2008 due to market information on the stability of the institutions. The last investment matured on 2nd July 2008.

4.2.2 The Council undertook a tendering exercise for the provision of Treasury Management advisor service in September 2008, which resulted in the contract being awarded to Sector Treasury Services Ltd for an initial two-year period extendable for one year. This change of advisor has informed the review of our Strategy and policies.

4.2.3 Up until the bank rate reduction in October receipts from investments were healthy. An average interest of 5.66% was achieved. Interest receipts for 2008/09 are forecast to be £2.6million against an original budget for 2008/09 of £2.4million. The latest forecast of interest rates are shown below and indicate lean times ahead times and a detrimental effect on the gross interest forecasts for 2009/10 by as much as £0.9million. An analysis of investments as at 30th November 2008 is as follows :

	2007/2008		2008/09 (to 30/11/08)	
	Principal	**Average Interest Rate**	**Principal**	**Average Interest Rate**
	£000'S	**%**	**£000's**	**%**
Building Societies	33,000	5.69	38,000	5.31
Banks	14,000	5.47	15,500	6.54
Total	47,000	5.60	53,500	5.66

4.2.4 The Council has continued with its policy of not borrowing to fund capital expenditure in 2008/09.

4. 3 Treasury Management Strategy Statement, MRP Strategy and Annual Investment Strategy 2009/10

4.3.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

4.3.2 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); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

4.3.3 The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- Prudential Indicators – see paragraph 4.4
- The current Treasury position – see para 4.2 above
- prospects for interest rates see para 4.6;
- the borrowing strategy see para 4.9;
- the investment strategy see paras 4.7-4.8 and Appendix B;
- the MRP strategy – see para 4.4.2 (v)

4.3.4 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 / or loss of interest when investment funds are used to finance 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.

4.4 Prudential Indicators for 2009/10- 2011/12

4.4.1 The following Prudential Indicators are relevant for the purposes of setting an integrated treasury management strategy.

4.4.2 The purpose of the Prudential Code is to ensure that any plans for capital expenditure are assessed, in terms of affordability; the code is intended to allow borrowing for capital expenditure which provides value for money, and which will lead to good stewardship of assets, while being sustainable and prudent.

(i) Capital Expenditure

The actual capital expenditure incurred in 2007/08 and the estimates of capital expenditure to be incurred for the current and next four years are outlined in Table 1.

TABLE 1 – ACTUAL CAPITAL EXPENDITURE IN 2007/08 AND ESTIMATED 2008/2013

	Actual 2007/08 £'000	Estimate 2008/09 £'000	Estimate 2009/10 £'000	Estimate 20010/11 £'000	Estimate 2011/12 £'000	Estimate 2012/13 £'000
HRA	3,657	0	0	0	0	0
General Fund	20,455	8,347	7,912	5,010	4,949	4,954
	24,112	8,347	7,912	5,010	4,949	4,954

The capital expenditure forecast reveals that the planned capital reflects a substantial decrease in spend due to the completion of the leisure centres project. The cessation of housing property expenditure further reduces the projected spend. Table 2 shows how the current programme of capital investment can be financed without recourse to borrowing.

TABLE 2 - FINANCING OF ESTIMATED CAPITAL EXPENDITURE

	Actual 2007/08 £'000	Estimate 2008/09 £'000	Estimate 2009/10 £'000	Estimate 2010/11 £'000	Estimate 2011/12 £'000	Estimate 2012/13 £'000
Grants	670	1,500	166	166	166	166
Direct Revenue	0	20	20	20	20	20
Capital receipts	20,873	6,352	7,065	4,756	4,743	4748
Section 106	2,569	475	661	68	20	20
	24,112	8,347	7,912	5,010	4,949	4,954

(ii) Cost of Financing of Estimated Capital Expenditure from Capital Receipts

These costs are the result of the loss of available investment funds and the consequential loss of interest income

TABLE 3 – INTEREST LOSS AS A RESULT OF FINANCING CAPITAL EXPENDITURE FROM CAPITAL RECEIPTS

	Estimate 2008/09 £'000	Estimate 2009/10 £'000	Estimate 2010/11 £'000	Estimate 2011/12 £'000	Estimate 2012/13 £'000
	%	%	%	%	%
Interest rate	6	2.75	3	4	4
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Interest loss	190	97	71	95	95

The losses outlined in Table 3 are based upon estimated interest income levels and demonstrate the costs involved in financing the capital programme from available receipts. Other things being equal, this implies that the Council would need to make equivalent savings to keep the level of Council Tax constant.

(iii) Financing Costs to Net Revenue Stream

The financing costs of the Council's capital programme required to be reported by the code are the costs of borrowing. The current cost of borrowing is nil. Over the next four years the Council does not envisage any borrowing, based on the current draft budget. Therefore the financing costs in Watford are not costs but interest income.

Table 4 shows the estimates of the ratio of financing costs to the net revenue stream for the current and future years. As with most of the figures constructed for compliance with the Prudential Code they are best estimates.

TABLE 4 - RATIO OF FINANCING COSTS TO THE NET REVENUE STREAM FOR THE CURRENT AND FUTURE YEARS.

	Estimate 2008/09 %	Estimate 2009/10 %	Estimate 20010/11 %	Estimate 2011/12 %	Estimate 2012/13 %
General Fund	(14.40)	(8.00)	(7.5)	(6.8)	(6.3)

These figures show in particular the fall off in investment income for the general fund over the period, resulting from the reduction in the market interest rate and the use of capital receipts for capital spending.

(iv)Capital Financing Requirement

This capital financing requirement is unlikely to be changed significantly between 2007/08 and 2012/13 as long as we continue to finance the Capital Programme from resources available to us.

The Prudential Code requires that: "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years."

The Council will have no difficulty meeting this requirement in 2008/09, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the Council's budget report. Indeed, based on the draft capital expenditure and receipts it is highly unlikely that Watford Borough Council will need to have any external borrowing for the foreseeable future.

(v) Minimum Revenue Provision

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In normal circumstances to the extent that this expenditure has been financed by credit there is an obligation to spread these costs over the useful life of the asset by making a minimum revenue provision to fund the capital credit repayments through the revenues of the council. Prior to February 2008 this MRP was a minimum amount of 4% of capital expenditure that has been financed by credit. An annual Minimum Revenue Provision (MRP) statement was required to be considered by the full council. New guidance issued by the government under SI2008 no 414 lays down that with effect from the financial year 2009/10

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent"

As previously there is no requirement to charge MRP where the Capital Financing Requirement, as in the case of Watford is nil or negative. Should the Council seek to undertake borrowing to finance capital expenditure in the future then Government Guidance provides 4 main options for the Council top consider to satisfy its duty of prudence in making an MRP. These relate to

- The regulatory method- as previously based on a 4% reducing balance (adjusted for Adjustment A) which the Council would be likely to use.
- Capital Financing Method – a variation on the above
- Asset Life Method – spread the MRP over the life of the asset
- Depreciation Method – Using standard accounting rules for depreciation for each type of asset

(vi)Proposed Authorised Limits

Part of the Prudential Code is to set an annual Authorised Limit for external borrowing by the Council. The Authorised Limit is split between external borrowing and other Long Term Liabilities and provides a limit or headroom within which the Authority may borrow for its long term capital expenditure plans and day to day finances and cash flows.

TABLE 5 - PROPOSED AUTHORISED LIMITS

	Estimate 2008/09 £'000	Estimate 2009/10 £'000	Estimate 2010/11 £'000	Estimate 2011/12 £'000
Borrowing	10,000	10,000	10,000	10,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**13,000**	**13,000**	**13,000**	**13,000**

These proposed Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. These are based on the estimate of most likely, prudent but not worst case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash-flow requirements for all purposes.

(vii) Operational Boundary

The Council is also asked to approve the following Operational Boundary for external debt for the same time period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in year monitoring. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the Chief Finance Officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, and in a similar fashion to the Authorised Limit. Any such changes will be reported to the Council at its next meeting following the change.

TABLE 6- OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

	Estimate 2008/09 £'000	Estimate 2009/10 £'000	Estimate 2010/11 £'000	Estimate 2011/12 £'000
Borrowing	4,000	4,000	4,000	4,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
	7,000	7,000	7,000	7,000

In taking its decisions on the Budget report Members are asked to note that the Authorised Limit determined for 2009/10 will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

(viii) Interest Rates on Borrowings

Should the Borough Council recommence borrowing the Council needs to set an upper limit on its fixed interest rate borrowings for the next three years (although in practice this will be difficult as there will be no spread of existing loans over different rates and periods). Over 2009/10, 2010/11 and 2011/12 it is recommended that the upper limit is 100% of principal sums outstanding.

It is further recommended that the upper limit for variable interest rate borrowings over the next three years be set at 100%. This would allow for temporary borrowing to be undertaken to fund cash flow.

(ix)Maturity of Borrowings

Again, should the Borough Council recommence borrowing the Council needs to set upper and lower limits for the maturity structures over prescribed periods of its future borrowings. Table 7 outlines the recommended maturity structures for fixed rate borrowing in each period.

TABLE 7 - RECOMMENDED MATURITY STRUCTURES FOR FIXED RATE BORROWING IN EACH PERIOD.

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 - 24 months	20	0
24 months – 5 years	50	0
5 – 10 years	75	0
10 years or more	100	0

4.5 Treasury Management Practices

4.5.1 Attached as Appendix A are the Treasury Management Practices for 2009/10 for approval. Members should note that this report contains no changes to the practices agreed in January 2008.

4.6 Prospects For Interest Rates

4.6.1 The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Sector interest rate forecast – 6 December 2008

	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	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
Bank rate	2.00%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	3.16%	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.84%	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.22%	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.91%	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

Sector's current interest rate view is that Bank Rate: -

- will fall from current levels because of the intensifying global recession
- Starting 2009 at 2.00%, Bank Rate is forecast to fall to 0.5% in Q1 2009
- It is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012.
- There is still some downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected

4.7 Investment Strategy for 2009/10

4.7.1 The current financial climate has prompted authorities to revise their Investment strategies and take an extra cautious approach when placing their investments. Many authorities have undertaken wholesale change to their investment strategies in the light of recent financial events. Others have taken action to varying degrees including:

- Moratorium on international investments
- Increased individual amounts with higher rated institutions
- Invested with a wider range of institutions
- Moved towards shorter term investments including overnight deposits
- Tightened investment criteria
- Given extra powers to officers to act quickly under delegated authority
- Made deposits with low interest earning government securities

4.7.2 Whilst some of these measures would appear to be ‘panic’ there is no doubt that some aspects of Watford Borough Council Investment Strategy do need revising in the light of recent events. The Councils revised Investment Stategy is attached in Appendix B with the changes to this policy described in more detail below.

4.7.3 **Criteria for Choice of Counterparties**
The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody’s *or Standard and Poors* rating will be used. The Council is alerted to changes in Fitch ratings 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;

- if a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) the Council will exercise caution in placing further investments with such organisations

4.7.4 For investments placed with banks and building societies the Council has a minimum rating that an organisation must possess. It is considered in the light of recent events that this minimum is raised. The current minimum and the revised strategy is shown below.

The Fitch Credit Rating	**Current Strategy**	**Revised Strategy**
Short Term Rating	F1	F1+
Long Term Rating	AA-	AA-
Support Rating	4	2
Individual Rating	C	B

4.7.5 The following reasoning behind the changes is as follows :

- The addition of ‘+’ on the short term rating denotes an institution with an exceptionally strong credit feature
- AA- on the long term rating denotes an institution with a very high credit quality with low credit risk
- An institution with a support rating of 2 indicates a high probability of external support should it get into financial difficulties
- An institution with an Individual rating of B indicates a strong institution with no major concerns, strong profitability and balance sheet integrity

4.7.6 In addition to the above a number of other changes are proposed in the choice of Counterparties

- **A ‘Lowest Common Denominator’ approach is introduced for credit rated organisations.** At present a counterparty is used if it meets the minimum criteria of *any* of the 3 credit rating agencies (as supplied by Sector). A more rigorous approach would be use a counterparty only if it meets the minimum criteria of *all* the agencies for which it has rating, as this would provide more comfort that the organisation is universally seen as strong, rather than just by one organisation.

- **Group limits are introduced**. At present it is possible to place deposits with more than one counterparty in the same group of companies if they have separate credit ratings and this obviously increases exposure to risk should there be a problem with the Group. It is recommended that the limit of the parent bank is used as the overall limit for the Group, reducing the amount that can be invested with the Group overall

- **Building Societies** - At present only a limited number of Building Societies have credit ratings, the Council allows investments with building societies based on the size of their asset base. Building Societies with assets over £1 billion (£5 million limit)or assets over £300 million (£1 million limit for up to 1 year). It is recommended that this is replaced by the top 20 building societies with assets over £1 billion (£5 Million limit for up to 1 year)

- **Nationalised Banks e**.g Northern Rock in the UK have credit rating which do no conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. Fitch do not assign them individual ratings for their stand alone financial strength. Accordingly they are assigned an F rating which means that at a historical point in time this bank failed and is now owned by the Government. However these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1 in other words on both counts they have the highest ratings possible. Officers would therefore look to invest in such banks although they do not meet the minimum criteria listed in 4.3.1 above

- **Blanket guarantees on all deposits**. Some countries have supported their banking system by giving a blanket guarantee on all deposits. Ireland with a sovereign rating of AAA has given a blanket guarantee up to 28th September 2010 to investors in 6 of its institutions, Allied Irish Bank, Bank of Ireland, Anglo Irish, Irish Life and Permanent, Irish Nationwide Building Society and Educational Building Society and have also extended to include foreign owned banks with Ireland based subsidiaries namely Ulster Bank. Other countries such as Australia Hong Kong and Singapore have also given similar blanket ratings to their banks although for foreign banks outside the UK it is more difficult to ascertain the strength of the guarantee or the state of the Government It is recommended that
    - specifically for the Irish Banks outlined above that whilst these guarantees are in place the Council relies on the sovereign rating of the country and the blanket guarantee in favour of the minimum Fitch rating outlined in 4.3.1 above.
    - that if the bank does not meet the minimum Fitch rating outlined in 4.3.1 above that no investments are made beyond the period of the guarantees
    - that in the absence of blanket guarantees that the Council only invests with banks meeting the minimum rating outlined in paragraph 4.3.1 and having a sovereign rating of AAA

- UK Banking System support package – The UK Government has underlined its determination to ensure the security of the UK banking system by supporting eight named insitutions with a £500bn support package, namely, Abbey, Barclays, HBOS, Lloyds TSB , HSBC , Nationwide Building Society, RBS and Standard Chartered. All these institutions with the exception of Standard

Chartered would meet the Councils minimum Fitch ratings outlined in 4.3.1. The Council will continue to invest with these organisations based on the minimum Fitch ratings

- The Council currently has a limit of 70% on the value of the portfolio that should be invested in building societies. The culture of the building society movement over many years has ensured that potentially failing societies have been taken over by others making this sector seem particularly secure for investors. The Councils financial advisors consider that this is too high and should be reduced to an amount of 25% citing the state of the Housing market on which building societies rely as being a risk to their financial stability. If the Council were to move to reduce its reliance on non-rated building societies then it is likely that investments returns would be lower since the returns from banks is invariably lower. Whilst this is a judgement call officers believe that moving to a maximum of 50% with building societies and implementing the measures of investing in the top 20 building societies as outlined in 4.7.7 above would be a satisfactory reduction in exposure at this stage. Clearly this reduction cannot be achieved overnight and officers would aim to reduce this percentage over the period covered by this strategy.

- **Raising the limit from £5million with any one institution –** Council officers have looked at the potential to raise the limit for investments with any one institution from the current £5million. The changes outlined above to invest only with UK institutions and reduce the number of Building Societies available may make it more difficult to place monies given that the number of counter parties will be less. However, this must be weighed against the increased risk of placing more money with one institution in the event of default. It has been concluded that for the time being the £5million remains in force subject to further review in September 2009.

4.7.7 Investment Instruments – The current strategy allows investments in the following instruments :

- Money market funds
- Debt Management Agency Deposit Facility
- Short term cash deposits with highly credit rated institutions
- Callable cash deposits with highly credit rated institutions
- Reserve Accounts
- UK Bonds issued by Multilateral Development Banks
- Certificate of Deposits
- Gilts
- Other local authorities

Whilst there no further change is recommended to the list identified above equally at this stage it is not envisaged that investments would be moved into some of these accounts. For instance although gilts, Uk Bonds and Debt Management Agency Deposit Facility offer the highest level of security and also the lowest level of risk they also offer a low rate of interest , currently 1.881% ,2.92% and 2% respectively.

4.7.8 Equally whilst money market funds offer a reasonable interest with highly rated counterparties the Council would pay a fee of 0.12% - 0.20% together with a transaction payment and selection fee.

4.7.9 These instruments are however consider to be an important part of the Treasury Management Strategy and will be kept under review

4.8 Investment Strategy 2009/10 to be followed in-house

4.8.1 The Council's in-house managed funds consist of those derived from cash-flow and from capital receipts. 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).

4.8.2 Most deposits in 2009/10 will continue to be short term i.e up to 1 year but the Council already has a long term investment with HSBC for £1million at 5.22% which is a callable option maturing on 14/9/2010. With reduced interest rates it is highly likely that this investment will be called. The Council has a core balance of reserves and receipts on which it is unlikely to call on in the short term of approximately £5million which it could seek to invest long term. However with present interest rates the climate is not congenial at this time.

4.8.3 Bank Rate started on a downward trend from 5.75% in December 2007 with further cuts of 0.25% in February and April 2008, then 0.5% in October, 1.5% in November and 1% in December. Further cuts of 1.5% are expected during Q1 2009 It is then expected to stabilise at 0.50% until starting to rise gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012. The Council will therefore avoid locking into longer term deals while investment rates are down at historically low levels.

4.8.4 For the 2009/10 budget an investment return of 1.50% on investments placed during 2009/10. Taken account of investments not due to mature until 2009/10 the average interest rate is estimated at 2.2% and estimated gross investment interest is approximately £1.1 million compared to an outturn forecast for 2008/09 of £2.6million.

4.8.5 For its cash flow generated balances, the Council will continue to utilise its business reserve accounts with the Co-Operative Bank PLC.

4.9 Borrowing Strategy 2009/10 to be followed in-house

4.9.1 .It is anticipated that there will be no capital borrowings required during 2009/10, as in previous years.

5.0 CONCLUSIONS

5.1 These are turbulent financial times with institutions being down rated almost daily, going into administration, being bailed out and the Icelandic crisis. There is no panacea to the current situation in the short term and no institution can be considered a cast iron safe investment. However, by tightening some of the Councils Treasury Management procedures as outlined above whilst security cannot be guaranteed the risk of an institution defaulting on the repayment of an investment is lowered whilst at the same time seeking to optimise the interest received. The main changes in Councils Treasury Management Strategy are outlined in paragraph 4.7 and these can be summarised as :

- Counterparty to meet the minimum criteria of all 3 credit rating agencies
- Investments be made with counterparties up to the maximum for the Group

- Investments made in non-rated building societies with assets of greater than £1 billion
- Investments to be permitted in UK Nationalised banks regardless of credit rating
- Investments to be permitted in Irish institutions up to period of the Government blanket guarantee regardless of the credit rating of individual banks
- Aim to reduce the overall amount invested in building societies from 70% to 50% over the period of this strategy

6 IMPLICATIONS

6.1 Financial

Forecast outturn investment income for 2008/09 is currently £2.6million an increase of £200k on the original budget of £2.4million. For 2009/10 budgeted investment interest is estimated at £1.1 million based on an average interest rate of 2.2% , which has had a significant impact on the Councils general fund budget

6.2 Legal Issues (Monitoring Officer)

The main legislative requirements are outlined in the report

6.3. Potential Risks

The management of risk is a key part of the Councils Treasury Management Strategy. However with the recent events in the financial economy and events involving Icelandic Banks a number of organisations have been found lacking. Whilst investing in the Governments DMO or gilts may be considered to be safer investments the return from these instruments is historically low which may a have a significant effect on the Councils investment interest and ultimately Council tax. Officers and its Treasury Management advisors Sector believe that the changes outlined above will provide a measured response to the current financial climate which optimises our return whilst tightening up on the security of the Councils investments

Background papers:

The General Fund Capital Programme 2008/09 –2012/13
General Fund Budget Report – 2009/10

TREASURY MANAGEMENT PRACTICES (TMP) APPENDIX A

1. TMP1 Risk Management

1.1 The Council's Section 151 officer or deputy shall:

- Design, implement, and monitor all arrangements for the identification, management and control of treasury management risk
- Report, at least annually, on the adequacy of these procedures
- Report, as a matter of urgency, any problems encountered in reaching the Council's objectives in this respect, in accordance with TMP 6 (Reporting Requirements and Management Systems)

1.2 The arrangements relating to the specific risks are detailed below:

Liquidity Risk

1.3 The Council will ensure that it is has sufficient, but not excessive cash (liquid) resources, borrowing arrangements and overdraft facilities to enable it, at all times, to meet its service objectives.

1.4 In order to ensure this is achieved a yearly cash flow forecast is prepared, by the Finance Department, that details the major peaks and troughs in the availability of funds during the year and the forecast minimum amount that could be invested for the whole year. A daily cash flow forecast is prepared by the Finance Department which indicates when:

- Surplus cash will be available to invest
- Funds will be needed to meet significant commitments. e.g. Precept payment dates.

1.5 A specifically designed spreadsheet is used to determine length of investments to prevent future cash shortages.

Interest Rate Risk

1.6 The Council will manage its exposure to fluctuations in interest rates with a view to maximising its net interest revenues, in accordance with the amounts provided in the Revenue Estimates. Again, the specifically designed spreadsheet (paragraph 1.5, above) calculates the maximum interest that can be earned from various investment scenarios that are within the parameters permitted in the liquidity forecasts.

1.7 The availability of funds for investment is determined by the cash flow forecast, which also influences the maturity profile of the investment portfolio. Investment income is closely monitored, and a regular comparison made between the budgeted projected investment income and the actual. The element of the portfolio that can be determined to be "core cash", i.e. cash regularly available throughout the financial year for external investment, is invested on the basis that will secure the best return for the minimum risk. Any developing shortfall in actual investment income in comparison to budgeted income will be reported to the Council at an early stage.

1.8 It is the practice of the Council to take advice from external sources to ensure access to expertise in the management of interest rate risk.

Exchange Rate Risk

1.9 In general operations the Council does not have any exposure to exchange rate movements. All treasury operations are conducted in sterling.

1.10 However, should the UK enter the Euro, the Council will take all necessary measures to ensure a smooth transition to the new currency. All risks arising from such a change will be carefully addressed, and the Council's Section 151 Officer will keep the Council fully informed of progress, risk assessment and resource requirements.

Inflation Risk

1.11 The Council will control the impact of varying levels of inflation as they impact on Treasury Management activities as part of the overall strategy for controlling the impact of inflation on the whole Council.

1.12 Discounted cash flow calculations should be used as appropriate when assessing the impact of any treasury management decision to fully assess the time value of money.

1.13 The impact of inflation is also controlled as part of the management of interest rate risk, although there is no direct correlation between the level of interest rates and the level of inflation.

Credit and Counterparty Risk

1.14 Council regards a prime objective of its Treasury Management activities to be the security of the principal sums that it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to within this document. The Council also recognises the need to have, and to maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing arrangements. Short term variation on the overnight investment limit for balances in the Councils bank accounts may only be exceeded following approval by the Director of Finance or Deputy Section 151 officer after due consideration of any risk.

1.15 Funds may only be deposited with:

- United Kingdom and Foreign banks that have a minimum Fitch credit rating of F1+ short term, AA- long term, legal support rating of 2 and Individual rating of B, (or equivalent rating with Moodys or Standard and Poors) ~ £5 million limit;
- Building Societies with assets over £1 billion (£5million limit)
- The UK Government via the Debt Management Agency Deposit Facility (£5 million limit);
- Other Local Authorities in the United Kingdom (£5 million limit); and
- Money Market Funds may be used if they meet the rating criteria of AAA (£2 million limit).

Refinancing Risk

1.16 Investments will be managed in such a way as to ensure a spread of maturity dates to minimise refinancing risk.

1.17 The revenue consequences of capital financing are monitored as part of the ongoing budget monitoring process.

Legal and Regulatory Risk

1.18 The 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, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council.

1.19 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.

1.20 Delegated authority for the management of the treasury function is set out in Standing Orders and Financial Procedure Rules. The Council complies with all the requirements of the Local Government and Housing Act 1989 and subsequent Statutory Instruments in the fulfilment of the Treasury Management function.

1.21 Prior to entering into any capital financing or investment transaction, it is the responsibility of the Section 151 officer or deputy to ensure that the proposed transaction does not breach statute, external regulation, or the Council's Financial Procedure Rules.

Operational Risk

1.22 The Council will ensure that it has identified the circumstances that 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.

1.23 The Treasury Management function will be regularly audited both internally and externally.

1.24 The disaster plan for the treasury function will be regularly reviewed to ensure that it is effective in what are likely to be extreme circumstances.

1.25 Fidelity insurance will be maintained in regard to personnel operating within the Treasury Management function.

Market Risk

1.26 The Council will seek to ensure that the stated policies will not be compromised by adverse market fluctuations in the value of the sums it invests, and will seek to protect itself from such fluctuations.

1.27 The Council will therefore seek to avoid exposure to any potential capital loss in its treasury dealings. If investments are made in securities that are valued against current market prices, policies will be pursued that minimises and manages any risk of capital loss.

1.28 The Council will also ensure that access is maintained to a variety of different markets so that the Council would not be at risk if access to an individual market were unexpectedly denied.

2 TMP 2 ~ Best Value and Performance Measurement

2.1 The Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management policy statement.

2.2 Accordingly, the Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the organisation's service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of grants and subsidy incentives, and of the scope for other potential improvements.

2.3 The following specific practices will be followed in order to achieve these stated aims:

- Target interest rates will be set each year for investments. These rates will be established in conjunction with the Council's external treasury advisers, and will differ each year as economic and market circumstances change
- The performance of the investment portfolio will be benchmarked internally against the current 3 month LIBOR rate.
- All Treasury Management decisions will be measured in the context of their impact on the whole finances of the Council, taking particular account of the impact on items such as housing subsidy and any other grants & subsidies

- The costs of the banking arrangements and methods of service delivery will be monitored and carefully compared to alternatives
- The Money Broking Services will be subject to regular review of performance, service level and method of delivery
- External Treasury Consultancy Services will be subject to review and a competitive tendering process, next due July 2011.
- The performance of the Treasury Management function will be subject to an annual report to the Council

3 TMP 3 ~ Decision-making and Analysis

3.1 The Council will maintain full records of its Treasury Management decisions. Records will be kept 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.

3.2 The following specific practices will be followed in order to achieve these stated aims:

- A pro-forma for each transaction will be completed and signed by two authorised signatories
- Justification notes will be maintained in relation to each transaction showing why the transaction was arranged at the specific price, with the specific counterparty, to the specific end date, and if appropriate, through a particular broker. The choice of end date is made by reference to the cash flow forecast and specifically designed spreadsheet (as outlined in paragraph 1.5)
- All investment decisions for periods longer than 6 months are made after detailed discussion with senior officers, and with reference to the external treasury consultant
- In respect of all Treasury Management decisions the Council must be certain that the transaction is the most appropriate, taking into account any risks to which the Council may be exposed. It must also be certain of the legality of the transaction that it is adequately documented, that it is with a satisfactory counterparty, and that it is at a competitive price
- For all investment transactions the Council must consider the optimum period in the light of cash flow and market conditions, and all alternative investment products.

4 TMP 4 ~ Approved Instruments, Methods and Techniques

4.1 The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques detailed below, and within the limits and parameters defined in TMP 1 Risk Management.

4.2 The following activities are approved for Treasury Management:

- Borrowing (specifically approved by the Section 151 officer or deputy)
- Lending
- Cash flow management
- Banking activities
- Leasing
- Management of the associated risk
- Consideration of new techniques and financial instruments.

Approved Methods and Sources of Raising Capital Finance

4.3 Funding can be raised on a fixed or variable rate basis. Section 3 of the Local Government Act 2003 requires the Council to determine an affordable borrowing limit. The Prudential Code specifies that the Council set an Authorised Borrowing Limit and an Operational. In addition, the Treasury Management Strategy includes Prudential Indicators relating to fixed and variable rate exposures. The following institutions will be used for this purpose:

- Bank overdraft
- Banks
- Building Societies
- Local Government
- Central Government
- Leasing

4.4 The Council will assess the appropriate type of funding depending on cost, the prevailing economic conditions, regulatory and local considerations.

Approved Instruments for Investment

4.5 The Annual Investment Strategy required by the DCLG sets out the investment instruments approved for use as:

- Deposits with banks, building societies or local authorities and other public authorities
- The Debt Management Agency of HM Government
- Gilts
- Treasury Bills
- Euro-sterling issues by Supra-national bodies listed on the London and Dublin Stock Exchanges.
- Nationalised UK Banks
- Banks with Blanket Guarantees on all deposits in the UK
- Banks covered under the Banking System support package

4.6 Investments may be made on a callable or short-term notice deposit, as well as by fixed term deposits, and in longer term securities, subject to current approved limits within the Investment Strategy.

4.7 Transactions may be arranged for forward settlement provided it is compliant with any technical views of the auditors.

5 TMP 5 ~ Organization, 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 time 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 the Treasury Management policies 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 Management function.

5.3 If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Councils' Section 151 Officer or deputy will ensure that the reasons are properly reported in accordance with TMP 6 (Reporting Requirements and Management Information Systems), and that the implications are properly considered and evaluated.

5.4 The Council's Section 151 Officer or deputy will ensure that there are clear written statements of responsibility for each post engaged in Treasury Management, and the arrangement for absence cover.

5.5 The Council's Section 151 Officer or deputy will ensure that there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds.

5.6 The Council's Section 151 Officer or deputy will fulfil all responsibilities in accordance with the Council's treasury policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

6 TMP 6 ~ Reporting Requirements and Management Information Systems

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 The following reports are made available to Members:

- An annual Treasury Strategy report, setting out expected treasury activity during the year, including the budget, the prospects for interest rates, expected borrowing and investment strategy.
- The Treasury Management Prudential Indicators as required within the Prudential Code.
- An Annual Investment Strategy as required by the guidance issued by the DCLG
- An out-turn report on activity actually undertaken during the year, which will include comparisons with agreed benchmarks, and an assessment of the risk implications of decisions taken.
- Details of any extra-ordinary treasury activity on an "as and when" basis.
- Management information reports will be produced as required.

7 TMP 7 ~ Budgeting, Accounting and Audit Arrangements

7.1 The Council's Section 151 Officer or deputy will prepare and the Council will approve an annual budget for Treasury Management that will bring together all the costs involved in running the Treasury Management function, together with the associated income. The matters to be included in the budget will at a 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 TMP 4 Approved Instruments, Methods, and Techniques. The Council's Section 151 Officer 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 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. The Treasury Management part of the statement of accounts is available within the full accounts, which are prepared in accordance with Code of Practice on Local Authority Accounting as recommended by CIPFA.

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. Such information and papers should demonstrate compliance with external and internal policies and approved practices.

7.4 In practice, all such information is readily available to both internal and external auditors.

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 Section 151 Officer or deputy, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer or deputy will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1) Liquidity Risk.

8.2 An on-going cash flow forecast is prepared and updated throughout the year and is used to determine the cash requirements of the Council on specific dates. All banking information is taken from the electronic banking system. The full process is described in the review of treasury procedures undertaken by the external consultant and attached as a schedule to this document.

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 staff involved in this are properly trained.

9.2 The following procedures are adopted to ensure the authenticity of all counterparties:

- Borrowing is only taken in an appropriate form in accordance with TMP 4;
- All transactions are appropriately recorded;
- All borrowings (if any) are through money brokers who are themselves regulated by the FSA to ensure that money laundering is prevented; and
- Local bonds are no longer raised, and direct deposits are not taken.

10 TMP 10 Staff Training and Qualification

10.1 The Council recognises the importance of ensuring that all staff involved in the Treasury Management function 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 Section 151 Officer or deputy will recommend and implement the necessary arrangements.

10.2 Currently training is undertaken through the following:

- Desk training as the individual concerned takes up the duties;
- External courses provided by organisations such as CIPFA; and
- Courses tailored made to the Council's requirements and provided on site by external bodies such as the Treasury Management consultants.

10.3 Training needs are regularly reviewed as part of the staff development progra*mme.*

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. When it 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 subject 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 a formal tender or to re-tendering arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 officer or deputy, and details of the current arrangements are set out in the schedule to this document.

11.2 The following external service providers are used in relation to Treasury Management:

- Banking arrangements with the Co-operative Bank are subject to regular review and tendering
- Use of money brokers as detailed in the Procedures Manual
- Use of external treasury consultants, whose appointment is subject to tendering on a regular basis
- External fund managers may be used to manage a proportion of the Council's investments. Such appointments are only undertaken on the advice of the external consultant, using a full tendering and selection process, and the performance is subject to regular review.

11.3 Detailed records are kept in relation to all the above arrangements.

12 TMP ~ 12 Corporate Governance

12.1 The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the Treasury Management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

12.2 The Council has adopted and has implemented the key recommendations of CIPFA's "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This, together with the other arrangements detailed in the Treasury Management Practices and the Procedures Manual are considered vital to the achievement of proper corporate governance in Treasury Management, and the Section 151 Officer or deputy will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.3 The reports on the Treasury Management function detailed in TMP 6, and the Treasury Policy Statement are available for public inspection. All the operations of the Treasury Management function are in the public domain, and the income from investments, the cost of raising capital finance, and the costs associated with maintaining the treasury function are reflected within the annual accounts of the Council which are available for public scrutiny and inspection. The relevant statistics relating to Treasury Management are also recorded in the statistics for all local authorities produced by CIPFA.

ANNUAL INVESTMENT STRATEGY 2009/10 APPENDIX B

1 Introduction

1.1 The Council will have regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's 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.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

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.

1.2 The Strategy must be approved by Full Council. In addition, an annual report must be produced, and presented to Full Council, after each year end.

1.3 The Strategy, once agreed, may be changed during the course of the financial year ~ again, subject to the approval of Full Council.

2 **Decision Making**
The Councils Cabinet will approve the criteria against which all investment decisions will be made

2.1 The Director of Finance will maintain
- an approved lending list of counterparties based on criteria approved by Cabinet
- a daily cash flow forecast for the Council

2.2 Investment decisions will be made daily as necessary by staff designated by the Director of Finance only to those organisations satisfying the minimum investment criteria and in accordance with the cash flow forecast. Designated brokers will be used to arrange transactions, however dealing direct with designated counterparties will be allowed subject to satisfactory security arrangements being in place to the satisfaction of the Director of Finance

2.3 Long term investment of more than 365 days will only be made with the prior approval of the Director of Finance

4 Specified and Non Specified Investments
Under the government guidance on local Government Investments the council must classify its investments between Specified and Non-specified categories and set limits on the amounts that may be held in the latter

4.1 Specified Investments

4.1 An investment is deemed as a specified investment if:
a) It is made, and is repayable, in sterling only
b) It has a maturity date of no more than twelve months
c) It is not defined as capital expenditure

d) It is made with a body that has been awarded a high credit rating or the UK Government, another Local Authority or a Parish Council.

4.2 The following categories of investments will be used under the definition of Specified Investments:

a) Money Market Funds
b) Debt Management Agency Deposit Facility
c) Short Term cash deposits with highly credit rated institutions
d) Callable cash deposits with highly credit rated institutions
e) Reserve Account
f) Forward deals (provided the maturity date is < 1 year from when the investment was made)
g) UK Government Bonds (with maturity dates of < 1 year)
h) Certificates of Deposit (with maturity dates of <1 year)
i) Banks nationalised by high credit rated (sovereign rating) countries
j) Government guarantee on all deposits by high credit rated sovereign rating

4.3 For the purposes of 4.1 d) above, the Council considers a high credit rating for Money Market Funds 4.2 a)i) and j) above to be those with a long term Fitch Rating of AAA (or the equivalent highest rating from Standard and Poors or Moodys)

4.4 For the purposes of 4.1 d) above, the Council considers a high credit rating for categories 4.2 c) and 4.2 d) above to be as follows:

Fitch Credit Rating	Minimum Level to be considered high
Short Term Rating	F1+
Long Term Rating	AA-
Support Rating	2
Individual Rating	B

or equivalent rating with Moodys or Standard and Poors.

4.5 The criteria for selecting building societies having no credit ratings will be by asset size. To be included on the Councils lending list , building societies must have an asset size at least equal to the minimum set out on the Approved Lending List.

4.6 The Council will monitor these ratings on a regular basis based on information received from their treasury advisers. A monthly full update of the list will be received from the Councils Treasury advisors Sector and any rating changes in the interim will be notified as and when they occur.

4.7 Specified Investments offer both high security and high liquidity. That is, the possibility of the investment being lost is negligible and, in the short term, ‘cash’ will be available, if needed, to the Council.

4.8 Authorities are free to rely on Specified Investments with minimum procedural formalities ~ subject to the approved TMPs.

4.9 TMP 1 (Risk Management) details the credit ratings and investment limits to be applied. Credit ratings are updated on a monthly basis with timely notification of any changes and are checked before any investment is made. Where ratings are downgraded for a counterparty with which the Council has already invested, no future investments will be placed with that counterparty if the new rating falls below the specified minimum.

5 Non-Specified Investments

5.1 Any investment that does not meet all of the criteria for Specified Investments is deemed to be a Non-Specified Investment.

5.2 Non-specified Investments, therefore relate to non-credit rated institutions or investments made for periods greater than 1 year, which are considered less liquid as the cash is not quickly realisable. Provided precise procedures determine the processes to be undertaken in assessing suitable institutions for non-specified investments, they should not be considered less secure than specified investments.

5.3 It is clear from the DCLG guidance that the intention is not to discourage the use of Non-Specified Investments, but to make sure that they are properly considered and that there are appropriate procedures in place for risk management.

5.4 In practice, this would mean that investments within the Building Society sector and longer term investments will be the only non-specified investments that the Council is likely to utilise. In all other respects the same rating and limit criteria, set out in TMP 1, will apply.

5.5 The Council is required to set a limit, expressed as either a sum of money or as a percentage of total investments. This can range from 0 to 100%. Within that limit, the following category limits for non-specified investments will also apply:

- Building Society Deposits – up to 50% of total investments
- Investments for periods greater than 1 year – up to 25% of total investments

5.6 The following instruments will be used by the Council and the following limits, as a proportion of the total investments, will be placed on each category of investment:

Instrument	Limit
Term Deposits (maturity date >1 year)	25%
Callable Deposits (maturity date > 1 year)	25%
Deposits with non-rated Building Societies	70%
Forward Deals (maturity > 1 year)	25%
UK Government Bonds (maturity date >1 year)	25%
Certificates of Deposit (maturity date > 1 year)	10%
Supranational Bonds	25%
Floating Rate Notes	25%

5.7 It should be noted that the credit ratings specified in paragraph 4.4 above also apply to non-specified investments. Investments with Building Societies above will be limited to those institutions specified within the Council's Treasury Management Practices

5.8 A maximum of 75% will be held in aggregate in non-specified investments listed above.

6 Liquidity of Investments

6.1 The Council is required to carefully balance its use of Specified and Non-Specified Investments to ensure appropriate management of its liquidity risk (TMP 1). Any long term investments must be based on long term cash flow forecasts that show that future operational cash requirements are not jeopardised by that investment.