

TREASURY MANAGEMENT STATEMENT**1. Introduction**

1.1 The Local Government Act 2003 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.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an annual investment strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The suggested strategy for 2006/07 in respect of the following aspects of the treasury management function is based upon the Council's Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's external treasury advisor. This strategy covers:

- treasury limits for 2006/07 to 2008/09, which will limit the treasury risk and activities of the Council;
- prudential indicators
- the current treasury position and borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- the extent of debt rescheduling opportunities;
- the annual investment strategy including the treasury management policy;

2. Treasury Limits for 2006/07 to 2008/09

2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit" (also referred to as "Authorised Limit").

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

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

3. Prudential Indicators for 2006/07 – 2008/09

3.1 The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted in May 2002 by the Council.

3.3 The actual capital expenditure that was incurred in 2004/05 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Capital Expenditure					
	2004/05 £000 Actual	2005/06 £000 Estimate	2005/06 £000 Revised Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	
General Fund	87,958	59,314	95,323	87,091	86,756	63,302
HRA	25,722	22,056	23,506	18,094	90,754	90,754
Total	113,680	81,370	118,829	105,185	177,510	154,056
Funded by						
Credit approvals/supported borrowing	33,929	28,312	28,466	39,394	138,153	127,015
Unsupported borrowing	2,500			715	423	452
Capital receipts	13,452	16,446	16,446	11,288	6,858	6,605
Government grants	30,899	33,007	56,643	46,031	31,777	19,661
Revenue and other contributions	13,600	3,605	17,274	7,757	299	323
Alexandra Palace capitalisation direction	19,300					
Total	113,680	81,370	118,829	105,185	177,510	154,056

3.4 Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2004/05 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2004/05 Actual	2005/06 Estimate	2005/06 Revised Estimate	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
GF	7.66%	7.82%	7.99%	7.86%	8.21%	8.74%
HRA	23.25%	32.99%	34.90%	33.03%	33.79%	36.10%
Combined	5.92%	6.04%	6.24%	6.14%	6.39%	6.84%

The estimates of financing costs include current commitments and the proposals in this budget report and elsewhere on the agenda.

3.5 The actual capital financing requirement for 2004/05 and estimates of the capital financing requirement for the council for the current and future years are:

Capital Financing Requirement						
	2004/05 £000 Actual	2005/06 £000 Estimate	2005/06 £000 Revised Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
GF HRA	247,110 342,826	268,347 353,236	255,347 352,256	279,009 358,489	327,531 437,382	363,004 516,275
Total	589,936	621,583	607,603	637,498	764,913	879,279

3.6 The capital financing requirement (CFR) measures the authority's underlying need to borrow for a capital purpose. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices.

3.7 The CFR is planned to increase significantly from 2007/08 onwards primarily because of the additional supported investment in respect of the Arms Length Management Organisation (ALMO) decent homes and Building Schools for the Future (BSF). It is currently assumed this will be funded by supported borrowing.

3.8 CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"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."

3.9 The Council will meet this requirement. This view takes into account current commitments, existing plans, and the proposals in this budget report and elsewhere on the agenda.

	Net borrowing and Capital Financing Requirement				
	2005/06 £000 Estimate	2005/06 £000 Revised Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Gross borrowing	646,635	589,979	619,874	747,289	861,655
Investments	(30,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Borrowing	616,635	529,979	559,874	687,289	801,655
Capital Financing Requirement	621,583	607,603	637,498	764,913	879,279

3.10 In respect of its external debt, it is recommended that the Council approve the following authorised and operational limits for its total external debt for the next three financial years. These limits separately identify borrowing from

other long-term liabilities such as leases. The operational boundary represents a key management tool for in year monitoring by the Director of Finance. The operational boundary excludes 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.

3.11 The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its next meeting following the change.

	Authorised Limit for External Debt		
	2006/07 £000	2007/08 £000	2008/09 £000
Borrowing	644,162	772,162	888,162
Other long term liabilities	5,838	5,838	5,838
Total	650,000	778,000	894,000

3.12 The proposed authorised and operational limits for external debt in 2006/07 to 2008/09 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. They are based on the estimate of the most likely forecast position, but with sufficient headroom over and above this to allow for operational cash flow management.

	Operational Boundary for External Debt		
	2006/07 £000	2007/08 £000	2008/09 £000
Borrowing	623,162	750,162	865,162
Other long term liabilities	5,838	5,838	5,838
Total	629,000	756,000	871,000

3.13 The Council's actual external debt at 31 March 2005 was £562.3 million. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

3.14 In taking its decisions on this budget report, the Council is asked to note that the authorised limit determined for 2006/07 (see paragraph 3.9 above) will be the statutory limit determined under Part 1 s.3 (1) of the Local Government Act 2003.

3.15 The Band D Council Tax that would result for the Council for 2006/07 from the totality of the capital and revenue plans recommended in this budget report and elsewhere on the agenda is £1,094.97.

- 3.16 Forward estimates for the Band D Council Tax for 2007/08 and 2008/09 are £1,122.34 and £1,150.40 respectively. These forward estimates are not fixed and do not commit the Council. They are based on the Council's existing commitments, current plans and the totality of the approved capital and revenue plans.
- 3.17 With respect to the HRA, the average weekly rent that would result for 2006/07 from the totality of the capital and revenue plans is £69.87.
- 3.18 Forward estimates for housing rents for 2007/08 and 2008/09 are £73.36 and £77.02 respectively. Again, these forward estimates are not fixed and do not commit the Council. They are based on the Council's existing commitments, current plans and the totality of the approved capital and revenue plans.

Consideration of options for the capital programme

- 3.19 In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:
 - Affordability, e.g. implications for Council Tax
 - Prudence and sustainability, e.g. implications for external borrowing
 - Value for money, e.g. option appraisal
 - Stewardship of assets, e.g. asset management planning
 - Service objectives, e.g. strategic planning for the authority
 - Practicality, e.g. achievability of the forward plan.
- 3.20 A key measure of affordability is the impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax. The Council considers future capital investment options through its business planning process including the pre-business plan reviews.

Treasury management

- 3.21 It is recommended that the Council set an upper limit on its fixed interest rate exposures for 2006/07, 2007/08 and 2008/09 of 100%.
- 3.22 It is recommended that the Council set an upper limit on its variable interest rate exposures for 2006/07, 2007/08 and 2008/09 of 30%
- 3.23 It is recommended that the Council set upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period.

	Upper limit	Lower limit
under 12 months	40%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

3.24 There are currently no proposals for the Council to invest sums for periods longer than 364 days. Any future proposals will be considered in line with the Treasury Management Strategy.

3.25 The capital finance regulations contained in the Local Government Act 2003 do not deal with investments and this has been dealt with through guidance from the ODPM.

4. The Current Treasury Position and Borrowing Requirement

4.1 The Council's treasury portfolio position at 31 March 2005 comprised:

		Principal sum	Average rate
Debt		£m	%
Fixed Rate Funding	PWLB	437.3	
	Market	125.0	
		562.3	
Other long term liabilities		5.8	
Total Debt		568.1	7.33%
Total Investments		29.0	4.78%
Current net borrowing		539.1	

4.2 The capital financing requirement (CFR) is planned to increase in 2006/07 by £29.9 million as a consequence of capital expenditure. This will be funded by borrowing and the net borrowing requirement will increase by the same amount.

4.3 The CFR is planned to increase significantly from 2007/08 onwards primarily because of the anticipated additional supported investment in respect of the following:

- Housing – Arms Length Management Organisation (ALMO) decent homes – potentially up to £216m of capital investment in housing stock from

2007/08 to 2010/11. It is currently assumed that this will be financed by supported borrowing; and

- Children services – Building Schools for the Future (BSF) – investment of £180m over four years including a new Sixth Form Centre. It is expected that this will be financed primarily by supported borrowing although the Council is continuing to request that it is supported directly by grant.

4.4 Both of the above are included in the Council's borrowing requirements in the strategy. The supported borrowing in revenue impact terms will be in the general fund for BSF and in the housing revenue account for the ALMO. The current working assumption is that the actual costs of borrowing will be met by the actual government support and this will be kept under close review as each investment progresses.

4.5 In the Council's 2006/07 to 2008/09 budget plans the capital programme is based on the amount of supported borrowing and grant from central government and a projection of potential capital receipts. Therefore there is no increase in council tax or housing rent to fund a higher level of spend above this level of resources available. The Leisure Investment scheme approved at Executive on 25 March 2005 is included in the programme and provides a £5.1m package of improvements, of which £4.35m is funded by unsupported borrowing. The revenue cost of borrowing for this scheme is funded by additional income and expenditure savings.

4.6 Council's estimated borrowing requirement in future years *as set out in the prudential limits* is as follows:

	2006/07	2007/08	2008/09
	£m	£m	£m
New borrowing	29.9	127.4	114.4
Alternative financing arrangements	0	0	0
Replacement borrowing	0	0	0
Totals	29.9	127.4	114.4

Although there is no scheduled replacement borrowing in the period as shown above, there are some LOBO option start date reviews on existing borrowing in 2006/07, 2007/08 and 2008/09 where replacement borrowing may be required depending on the outcome of those reviews.

5. Prospects for interest rates

5.1 The Council appointed Sector Treasury Services as its treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the forecast, which is Sector's central view:

5.2 **Sector View:** Interest rate forecast – January 2006. Current base rate is 4.50%.

	Q /E1 2006	Q /E2 2006	Q /E3 2006	Q /E4 2006	Q /E1 2007	Q /E2 2007	Q /E3 2007	Q /E4 2007	Q /E1 2008	Q /E2 2008	Q /E3 2008	Q /E4 2008	Q /E1 2009	Q /E2 2009
Base rate	4.50%	4.25%	4.25%	4.00%	4.25%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
5yr Gilt Yield	4.00%	4.00%	4.00%	4.25%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
10yr PW LB Rate	4.25%	4.25%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	4.75%	4.50%
25yr PW LB Rate	4.25%	4.25%	4.25%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	4.75%	4.50%	
50yr PW LB Rate	4.00%	4.00%	4.00%	4.25%	4.25%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.50%	4.25%

5.3 Sector's reviews of economic background during 2005 and looking forward through 2006 and into 2007 for UK, US and EU are as follows.

5.4 UK economic background

- 5.4.1 Gross domestic product (GDP) growth weakened from 3.2% in 2004 to 1.7% in 2005 under the impact of monetary and fiscal tightening and the impact of increasing oil prices depressing household spending. Growth is expected to recover weakly to about 2.0% in 2006 and then return to the long term trend rate of 2.5% in 2007.
- 5.4.2 House price inflation has fallen to low levels and may now stabilise.
- 5.4.3 Inflation forecast is anticipated to remain around the target despite increases in oil prices. The Bank of England's monetary policy committee (MPC) are on alert for cost pressures in pipeline, primarily from oil price increases, feeding through into output prices and then into retail prices.
- 5.4.4 The public sector deficit is anticipated to decline steadily over the next few years as the Government cuts back on the rate of growth of its expenditure.
- 5.4.5 US and EU economic positions and outlooks have also been reviewed and taken into account in formulating a view on interest rates.
- 5.4.6 The forecast within this strategy statement has also taken account of data from a variety of forecasts published by a number of institutions.

6 Borrowing Strategy

- 6.1 This forecast indicates, therefore, that the borrowing strategy for 2006/07 should be set to take long dated borrowings in the second and third quarters of the calendar year before PWLB rates rise. This applies particularly to the 50 year area where we forecast the rate to remain at 4% until Q3 2006. Variable rate borrowing and borrowing in the five year area will also be attractive in the second and third quarters of the calendar year while the repo rate is on a falling trend.

6.2 These interest rate expectations provide a variety of options:

- with 50 year PWLB rates at 4% borrowing should be made in this area of the market in Q2 and Q3 of the calendar year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.0%. However, to maintain a suitable maturity profile, authorities should consider borrowing short term fixed and variable borrowing as well and this should be undertaken in the second and third quarters of the financial year as the repo rate declines.
- consider borrowing longer term fixed funding if believe that there is a risk that the average variable rate over the budget forecast period is going to be higher than the longer term fixed rate. However, over the longer term there may be periods where short term/variable rates are lower than longer term fixed rates.

6.3 Against this background caution will be adopted with the 2006/07 treasury operations. The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions as required by the policy.

6.4 Sensitivity of the forecast - the main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or in increases in inflation, 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.
- if it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates remaining low or weakening, then long term borrowings will be postponed, and any rescheduling from fixed rate funding into variable or short rate funding will be exercised.

7. **Debt Rescheduling and restructuring**

7.1 Opportunities may exist for restructuring long term debt into short term variable rate debt to produce savings later in the year, particularly once base rate has fallen to 4.25%. With variable rate borrowing rates likely to fall significantly during 2006/07, it will be best to avoid restructuring into fixed borrowing for short periods (e.g. one year). Long term fixed rates are not expected to rise back above 5.00% during 2006/07. Consequently long term debt rates at or around 4.75% would warrant reviewing the potential for undertaking debt restructuring. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 6 above.

7.2 In addition, the Council will actively give consideration during the year to taking advantage of small movements in PWLB rates to reduce the cost of existing debt in the portfolio by reborrowing at lower rates without making significant changes to the type of debt (fixed / variable) or maturity periods.

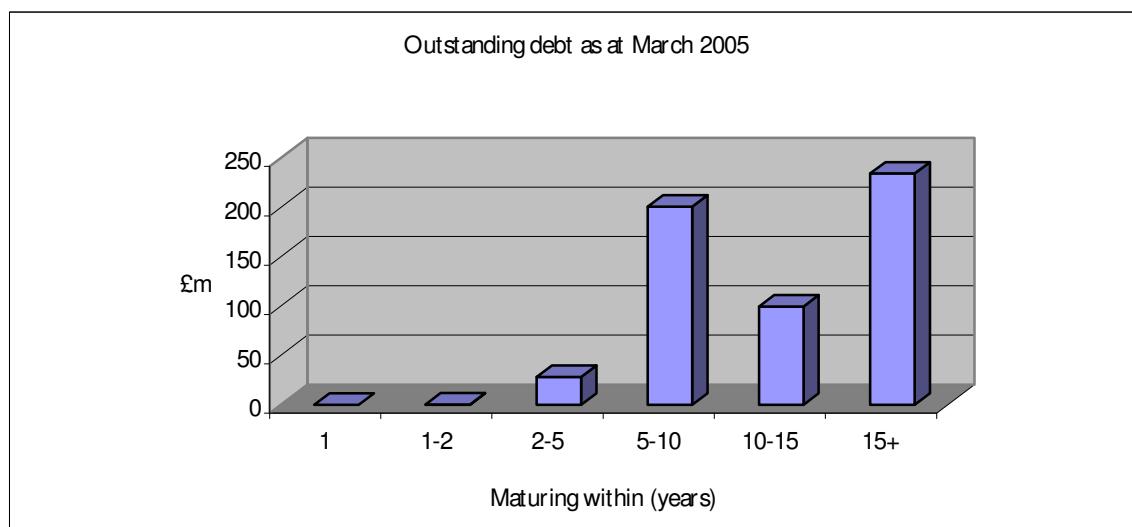
7.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in paragraph 6 above; and
- In order to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).
- In order to maintain a portfolio that takes due account of our risk profile.

7.4 All rescheduling will be reported as required by the policy.

7.5 Sector, our external advisers, have indicated that there is also a possibility of rescheduling some debt, which could improve our risk profile measured over the next 50 years. These opportunities will be reviewed and form part of the strategy.

Profile of long term debt maturity as at 31 March 2005 is as follows. Currently debt maturing within 5 to 10 years is relatively high. This is monitored as part of our continual review of our debt profile with our advisors to ensure that a balanced portfolio is maintained that takes due account of risk.



8. Annual investment strategy

8.1 Investment Policy

8.1.1 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 Treasury Management Code"). The Council's investment priorities are: -

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

- 8.1.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 8.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
- 8.1.4 Specified Investments. (All such investments will be sterling denominated, with maturities up to maximum of 1 year). Investment is permitted with the following organisations registered in the UK, European Union or North America, up to the following investment limits.

	Counterparty limits £m
All banks authorised under the Banking Act 1987 which have an acceptable rating in the rating matrix	10
The Council's banker (currently Co-operative Bank PLC)	7
All building societies which have an acceptable rating in the rating matrix	10
Local Authorities	10
HM Government	20
Money Market Funds	10

- 8.1.5 The ratings matrix referred to in the above table is prepared by the Council's treasury advisors. The Council uses Fitch ratings to derive its criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (*or other rating agency if applicable*) rating will be used. All credit ratings will be monitored on an ongoing basis. 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.
- 8.1.6 Possible review of the types of specified investments permitted will be discussed with Sector and reported back should any changes in policy be proposed.
- 8.1.7 The Council's current policy is not to deal in non-specified investments (i.e. cash investments longer than 1 year). Possible review of this policy will be discussed with Sector and reported back for approval should any changes in policy be proposed.
- 8.1.8 The Treasury Management Policy document is included at Section 9.

8.2 Investment Strategy

In-house funds

- 8.2.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2006/07 to range between £0m and £60m, however, cashflow variations can sometimes occur where this may vary.

8.2.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for interest rates (i.e. rates for investments up to 12 months and beyond 12 months).

8.2.3 Giving due consideration to the Council's balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, the Council has determined that some of its overall fund balances could possibly be prudently committed to longer term investments (i.e. those with a maturity exceeding a year). This will be reviewed in consultation with Sector.

Interest Rate Outlook

8.2.4 The base rate is expected to remain at 4.5% until Q4 of 2006 when it will fall to 4%, and then edge up by 0.25% to end Q1 2007 at 4.25%.

8.2.5 Attractive trigger rates for 1-year lending will be kept under review in consultation with Sector.

8.2.6 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

End of year Investment Report

8.2.7 At the end of the financial year, the Council will report on its investment activity as part of its outturn report.

9. Treasury Management Policy

Introduction

9.1 This policy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities, published by CIPFA ('the Code'). In adopting the Code, the following policies have been agreed.

9.2 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 4 of that Code.

9.3 Accordingly, the Council has created and will maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies and objectives of its treasury management activities
- suitable treasury management practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how those activities will be managed and controlled.

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

9.5 The Council receives reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, and an annual report after its close, in the form prescribed in its TMP's.

9.6 The Council delegates responsibility for the monitoring of the implementation of its treasury management policies and practices to the Lead Member. The Council delegates the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the organisation's statement and TMP and CIPFA's Standard of Professional Practice on Treasury Management.

Definitions

9.7 The Code defines treasury management as:

“the management of the local authority’s cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks”.

9.8 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

9.9 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employ suitable performance measurement techniques, within the context of effective risk management.

Approved activities

9.10 The approved activities for the treasury management function are:

- borrowing
- lending
- debt repayment and rescheduling
- consideration, approval and use of financial instruments and treasury management techniques
- managing the underlying risk associated with the Council’s capital financing and cashflows
- leasing.

Strategy

9.11 An annual strategy report will be presented to Council. The report will set out projections of treasury management activity for the year and for subsequent years and propose actions to be taken.

9.12 The strategy will consider:

- interest rate prospects
- borrowing strategy
- annual investment strategy
- debt rescheduling
- any other treasury management activity

9.13 The strategy will further set out:

- the Council's Prudential Indicators for the following 3 financial years
- the Council's current portfolio position and borrowing requirement

Approved methods and sources of funding

9.14 Borrowing is raised in accordance with the Local Government and Housing Act (1989) and is permitted via the following instruments:

- overdraft
- short term loans
- Public Works Loan Board loans
- other loan instruments.

Investment Policy

9.15 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 Treasury Management Code"). The Council's investment priorities are: -

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

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

9.17 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.

9.18 Specified Investments. (All such investments will be sterling denominated, with maturities up to maximum of 1 year). Investment is permitted with the following organisations registered in the UK, European Union or North America, up to the following investment limits.

	Counterparty limits £m
All banks authorised under the Banking Act 1987 which have an acceptable rating in the rating matrix	10
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9.19 The ratings matrix referred to in the above table is prepared by the Council's treasury advisors. The Council uses Fitch ratings to derive its criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (*or other rating agency if applicable*) rating will be used. All credit ratings will be monitored on an ongoing basis. 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.

9.20 There are no suggested changes to the types of specified investments permitted, but a review will be carried out during the year with Sector and will be reported back for approval during the year should any changes be proposed.

9.21 The Council's current policy is not to deal in non-specified investments (i.e. cash investments longer than 1 year). Possible review of this policy will be discussed with Sector and reported back for approval should any changes in policy be proposed.

Investment Strategy

9.22 Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates (i.e. rates for investments up to 12 months and beyond 12 months).

9.23 Attractive trigger rates for 1-year lending will be kept under review in consultation with Sector.

9.24 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

Brokers and advisors

9.25 The following brokers are approved for open market transactions:

- ICAP PLC
- Prebon Marshall Yamane (UK) Ltd
- Tradition UK Ltd
- Sterling Brokers Ltd
- The Co-operative Bank PLC
- Martins Brokers (UK) PLC

9.26 The following brokers are approved for leasing transactions:

- Capita Leasing Services Ltd
- Unilink
- Dovetail solutions Ltd.

9.27 The Director of Finance is authorised to deal with other brokers or agents, from time to time, when the Director of Finance considers it to be beneficial to the Council.

9.28 The Council's treasury management advisor is Sector.

External managers

9.29 The use of external managers is not permitted.

Delegation

9.30 The following delegations will apply for treasury management:

Executive

Annual review of policy.

Consideration of the strategy.

Director of Finance

Implementation of the policy and strategy, including the authority to raise loans, enter into leases and make investments. In each case, in accordance with procedures determined by the Director of Finance and as set out in the Treasury Management Practices.

Any decision to invest in specified investments not currently used or in non-specified investments following advice from Sector.

Reporting

9.31 The Director of Finance will:

- prepare an annual strategy report and review of the policy for the consideration of Executive;
- report annually to the Executive on the achievement of the previous year's strategy;
- report relevant, key details of the treasury management activities to the Lead Member.