Appendix K

TREASURY MANAGEMENT STATEMENT

1. Introduction

1.1 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. We have also set out our Prudential Indicators for year four of our financial planning process.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an annual investment strategy (as required by Investment Guidance issued subsequent to the Act); 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 2007/08 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 2007/08 to 2010/11, 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;

1.4 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
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.

2. Treasury Limits for 2007/08 to 2010/11

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 2007/08 – 2010/11

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 2005/06 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Capital Expenditure						
	2005/06 £000 Actual	**2006/07 £000 Estimate**	**2006/07 £000 Revised Estimate**	**2007/08 £000 Estimate**	**2008/09 £000 Estimate**	**2009/10 £000 Estimate**	**2010/11 £000 Estimate**
General Fund	89,229	87,091	99,266	77,513	79,085	70,798	46,659
HRA	24,087	18,094	18,136	19,278	61,422	77,336	74,828
Total	**113,316**	**105,185**	**117,402**	**96,791**	**140,507**	**148,134**	**121,487**
Funded by							
Credit approvals/supported borrowing	35,576	39,394	21,177	23,666	54,605	74,461	67,375
Unsupported borrowing	6,059	715	594	592	0	0	392
Capital receipts	13,912	11,288	15,746	10,216	8,432	5,499	3,981
Government grants	42,367	46,031	66,373	39,797	55,789	48,387	30,273
Revenue and other contributions	15,402	7,757	13,512	22,520	21,681	19,787	19,466
Total	**113,316**	**105,185**	**117,402**	**96,791**	**140,507**	**148,134**	**121,487**

3.4 Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2005/06 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2005/06 £000 Actual	**2006/07 £000 Estimate**	**2006/07 £000 Revised Estimate**	**2007/08 £000 Estimate**	**2008/09 £000 Estimate**	**2009/10 £000 Estimate**	**2010/11 £000 Estimate**
GF	8.16%	7.86%	7.24%	7.04%	6.75%	6.65%	6.93%
HRA	22.55%	33.03%	33.27%	33.41%	34.08%	35.20%	36.57%
Combined	6.34%	6.14%	5.65%	5.55%	5.33%	5.22%	5.47%

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 2005/06 and estimates of the capital financing requirement for the council for the current and future years are:

	Capital Financing Requirement						
	2005/06 £000 Actual	**2006/07 £000 Estimate**	**2006/07 £000 Revised Estimate**	**2007/08 £000 Estimate**	**2008/09 £000 Estimate**	**2009/10 £000 Estimate**	**2010/11 £000 Estimate**
GF	256,080	279,009	256,215	258,103	251,049	250,498	246,061
HRA	358,681	358,489	364,914	371,147	420,436	485,406	547,590
Total	**614,761**	**637,498**	**621,129**	**629,250**	**671,485**	**735,904**	**793,651**

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 2008/09 onwards primarily because of the additional supported investment in respect of the Arms Length Management Organisation (ALMO) decent homes that 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					
	2006/07 £000 Estimate	2006/07 £000 Revised Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Gross borrowing	619,874	640,162	635,291	677,526	741,945	799,692
Investments	(60,000)	(60,000)	(30,000)	(30,000)	(30,000)	(30,000)
Net Borrowing	**559,874**	**580,162**	**605,291**	**647,526**	**711,945**	**769,692**
Capital Financing Requirement	**637,498**	**621,129**	**629,250**	**671,485**	**735,904**	**793,651**

3.10 The proposed operational and authorised limits for 2007/08 take account of the additional £17m borrowed in 2006/07 as reported to Executive on 31 October 2006. Our external treasury advisers, Sector, alerted the Council to the opportunity to take up some long term borrowing at very advantageous rates (4.10%). The additional borrowing is part of approved plans of supported funding for next years capital programme and therefore this fitted in with the Treasury Management Strategy approved by Council on 6 February 2006. The Acting Director of Finance has delegated authority to approve treasury management decisions. A delegated decision was made on 26 September 2006 to take out long term loans for £17m to secure these advantageous rates. As this relates to financing for the capital programme in 2007/08 this went above the operational boundary for borrowing in 2006/07 and therefore the Council approved an increase in this limit for 2006/07. This additional early borrowing was still within the Council's authorised limit for 2006/07. These limits are part of the prudential indicators included in the approved Treasury Management Strategy.

3.11 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 four 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 Acting 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.

3.12 The Council is asked to approve the following limits and to delegate authority to the Acting 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			
	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Borrowing	663,561	705,561	770,561	827,561
Other long term liabilities	5,439	5,439	5,439	5,439
Total	**669,000**	**711,000**	**776,000**	**833,000**

3.13 The proposed authorised and operational limits for external debt in 2007/08 to 2010/11 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			
	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Borrowing	638,561	680,561	745,561	802,561
Other long term liabilities	5,439	5,439	5,439	5,439
Total	**644,000**	**686,000**	**751,000**	**808,000**

3.14 The Council's actual external debt at 31 March 2006 was £587.2 million and is currently £634.2 million including approved borrowing undertaken in 2006/07. 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.

3.15 In taking its decisions on this budget report, the Council is asked to note that the authorised limit determined for 2007/08 (see paragraph 3.9 above) will be the statutory limit determined under Part 1 s.3 (1) of the Local Government Act 2003.

3.16 The Band D Council Tax that would result for the Council for 2007/08 from the totality of the capital and revenue plans recommended in this budget report and elsewhere on the agenda is £1,127.83.

3.17 Forward estimates for the Band D Council Tax for 2008/09, 2009/10 and 2010/11 are £1,161.66, £1,196.51 and £1,232.41 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.

3.18 With respect to the HRA, the average weekly rent that would result for 2007/08 from the totality of the capital and revenue plans is £75.49.

3.19 Forward estimates for housing rents for 2008/09, 2009/10 and 2010/11 are £79.26, £83.22 and £87.38 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

3.20 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.

3.21 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

3.22 It is recommended that the Council set upper limits on its fixed interest rate exposures as follows: 2007/08 £635 million, 2008/09 £677 million, 2009/10 £741 million and 2010/11 £799 million.

3.23 It is recommended that the Council set upper limits on its variable interest rate exposures as follows; 2007/08 £190 million, 2008/09 £203 million, 2009/10 £222 million and 2010/11 £239 million.

3.24 It is recommended that the Council set upper and lower limits for the maturity structure of its borrowings during 2007/08 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	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

3.25 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.

3.26 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 2006 comprised:

		Principal sum	Average rate
Debt		**£m**	**%**
Fixed Rate Funding	PWLB	462.2	
	Market	125.0	
		587.2	
Other long term liabilities		5.4	
Total Debt		**592.6**	7.35%
Total Investments		**27.9**	4.66%
Current net borrowing		**564.7**	

4.2 The capital financing requirement (CFR) is planned to increase in 2007/08 by £8.1 million as a consequence of capital expenditure.

4.3 The CFR is planned to increase significantly from 2008/09 onwards primarily because of the anticipated additional supported investment in respect of Housing – Arms Length Management Organisation (ALMO) decent homes – potentially up to £158m of capital investment in housing stock from 2008/09 to 2010/11. This will be financed by supported borrowing. The supported borrowing in revenue impact terms will be in the housing revenue account. The costs of borrowing will be met by actual government support and this will be kept under close review. The total bid for investment funding for the decent homes scheme is £228m over the duration of the whole scheme.

4.4 Children and Young People's Service – Building Schools for the Future (BSF) – A total of £194m is planned to be spent on BSF (made up of £179m of central government resources, £10m from the Learning Skills Council contributing towards the cost of the new 6th form centre and revenue contributions from the DSG).

4.5 In the Council's 2007/08 to 2010/11 budget plans the capital programme is mainly based on the amount of supported borrowing and grant from central government and a projection of potential capital receipts. However there are three relatively small unsupported borrowing schemes with spend totalling £984k that will be funded within available resources and are 'spend to save' projects. Therefore there is no increase in council tax or housing rent to fund a higher level of spend above the level of resources available.

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

	2007/08	2008/09	2009/10	2010/11
	£m	£m	£m	£m

New borrowing	8.1	42.2	64.4	57.7
Alternative financing arrangements	0	0	0	0
Replacement borrowing	0	0	0	0
Totals	**8.1**	**42.2**	**64.4**	**57.7**

4.7 As reported in paragraph 3.10 the above new borrowing requirement for 2007/08 was borrowed in 2006/07 due to the opportunity to take up some long term borrowing at very advantageous rates.

4.8 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 2007/08 to 2010/11 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 2007 with a current base rate of 5.25%.

	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 %	Q/E3 2009 %	Q/E4 2009 %	Q/E1 2010 %
Bank rate	5.50	5.50	5.50	5.25	5.00	4.75	4.75	4.75	4.75	5.00	5.00	5.00	5.00
5yr PWLB rate	5.25	5.25	5.00	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
10yr PWLB rate	5.00	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
25yr PWLB rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
50yr PWLB rate	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25

5.3 Sector's reviews of economic background during 2006 and looking forward through 2007 and into 2008 for UK, US and EU are as follows.

5.4 UK economic background

5.4.1 Gross domestic product (GDP) growth is on the upswing of the economic cycle from a low point reached in June 2005. Robust growth is expected to continue for a little longer but a modest cooling is expected in 2007 (2006 2.5%, 2007 2%) and to continue at below the trend rate thereafter. The recovery in consumer spending and retail sales has underpinned this upswing in GDP.

5.4.2 The housing market has proved to be more robust than expected with house price inflation over 8% per annum. Increases in Bank Rate in August 2006, November 2006 and January 2007 are likely to dampen the housing market and also increases in unsecured borrowing.

5.4.3 Higher than expected immigration from Eastern Europe has strengthened growth and dampened wage inflation.

5.4.4 The Bank of England's monetary policy committee (MPC) raised Bank Rate to 5% in November 2006 and to 5.25% in January 2007 to bring inflation down to the 2% target level two years ahead. The MPC has been concerned that short term price increases could feed through into wage settlements in the next pay round.

5.4.5 The public sector real increase in expenditure per annum is anticipated to weaken to 2.5% over the next few years from 3% average between 2000 and 2005.

5.4.6 US and EU economic positions and outlooks have also been reviewed and taken into account in formulating a view on interest rates.

5.4.7 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 The Sector forecast is as follows: -

- The 50 year PWLB rate is expected to remain flat at 4.25%. As the Sector forecast is in 25bp segments there is scope for the rate to move around the central forecast by +/- 25 basis points without affecting this overall forecast.

- The 25-30 year PWLB rate is expected to remain at 4.5% for the foreseeable future.

- The 10 year PWLB rate will remain at 5% until Q3 2007 when it will fall to 4.75% and then fall in Q1 2008 to 4.50% and remain at that rate for the foreseeable future.

- 5 year PWLB rate will remain at 5.25% until Q3 2007 when it will fall to 5%. It is then expected to reduce to 4.75% in Q4 2007 and then reduce again to 4.5% in Q1 2008 and remain at that rate for the foreseeable future.

6.2 This forecast indicates that the borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.

6.3 The main strategy to minimise debt interest costs is as follows:

- With 50 year PWLB rate at 4.25%, borrowing should be made in this area of the market at any time in the financial 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 4.25%.

6.4 Against this background caution will be adopted with the 2007/08 treasury operations. The Acting 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.

6.5 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 weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

7. Debt Rescheduling and restructuring

7.1 As the first fall in Bank Rate is expected in Q4 2007, it is therefore expected that there will be a sharp difference between higher shorter term rates and cheaper long term rates in quarters 2 to 3 of 2007. Later on in 2008, this advantage will diminish once Bank Rate, and short term rates generally, start falling. There will therefore be an opportunity during quarters 2 to 4 of 2007 to restructure shorter term debt into long term in order to optimise the potential savings achievable in the financial year 2007/08. 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.

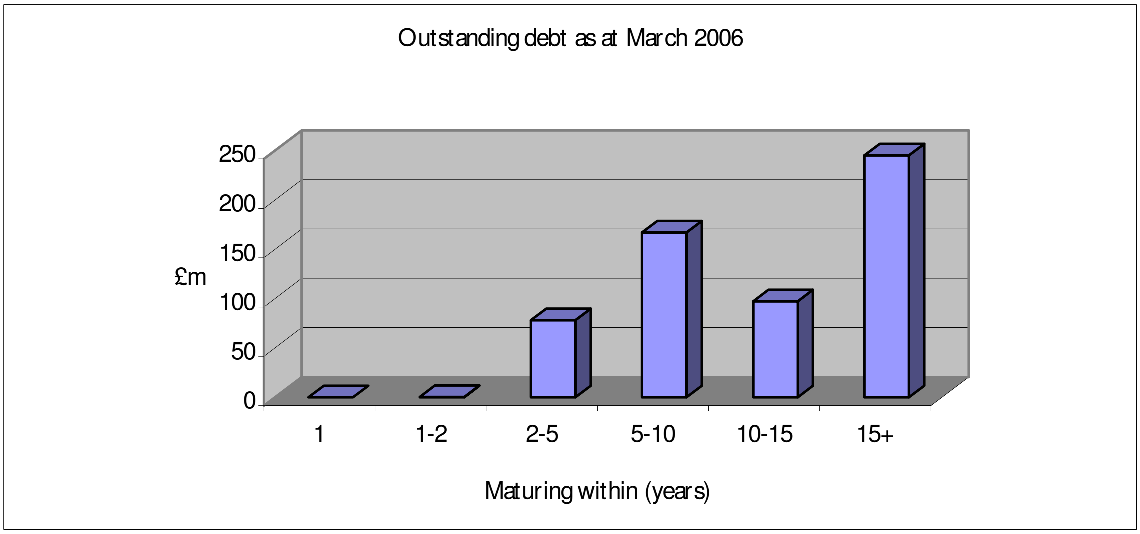
7.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in paragraph 6 above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

7.4 CIPFA issued a draft accounting standards document (SORP 2007) on 18 October 2006 which includes major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premia and discounts arising from debt rescheduling. There will be a three month consultation period before proposals are finalised. It is also expected that these proposals, once finalised, may make necessary the issue of legislation by the Government to take effect from 1 April 2007. The Authority's treasury management strategy will be reviewed once the final decisions in this area are known to see whether any changes will be required in borrowing, investment or debt rescheduling strategies.

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

7.6 Profile of long term debt maturity as at 31 March 2006 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 2007/08 to range between £0m and £100m, 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 4 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 Sector advise that the base rate is expected to rise again to 5.50% in Q1 2007, then fall to 5.25% in Q4 2007, reduce to 5% in Q1 2008 and then to 4.75% in Q2 2008. Then base rate is expected to increase to 5% in Q2 2009. We are advised to lock in longer period investments at higher rates before this fall starts for some element of our investment portfolio which represents our core balances. For 2007/08 we are advised to budget for a cautious investment return of 5%.

8.2.5 Attractive trigger rates for 1-year lending will be kept under review in consultation with Sector. 5.60% is identified as the current attractive rate.

8.2.6 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to 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 polices and practices to the Lead Member. The Council delegates the execution and administration of treasury management decisions to the Acting 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 4 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
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

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:

- Sector Leasing Services ltd
- Unilink
- Dovetail solutions ltd.

9.27 The Acting Director of Finance is authorised to deal with other brokers or agents, from time to time, when the Acting 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:

<u>Executive</u>
Annual review of policy
Consideration of the strategy

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

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

Reporting

9.31 The Acting 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.