REPORT FOR DECISION

Agenda Item	

MEETING: COUNCIL

DATE: 23 February 2011

SUBJECT: TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2011/12

REPORT FROM: Cabinet Member for Resource, Human Resource and Performance

CONTACT OFFICER: M Owen –Director of Finance and E-Government

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TYPE OF DECISION: COUNCIL

FREEDOM OF INFORMATION/ STATUS: FOR PUBLICATION - This paper is within the public domain

PURPOSE/SUMMARY:

The report sets out the suggested Strategy for 2011/12 in respect of the following aspects of the Treasury Management function. It 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:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- prudential and treasury indicators;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- the borrowing requirement;
- debt rescheduling;
- the investment strategy;
- the minimum revenue provision policy.

The primary objective of the Council's treasury management function will continue to be the minimisation of financing costs whilst ensuring the stability of the authority's long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk.

The starting strategy for 2011/12 will be to finance any borrowing requirements (but see below) by running down cash/investment balances and by short term temporary borrowing rather than by more expensive longer term loans. Given that investment returns are likely to remain low (say) 0.90% for the financial year 2011/12, then savings will be made from running down investments rather than more expensive long term borrowing.

However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years

Members should also note that the Budget 2011/12 report recommends that the Capital Programme should be limited to schemes that are fully funded from external sources in order that no additional borrowing is incurred to finance capital expenditure.

OPTIONS AND RECOMMENDED OPTION:

It is recommended that the Cabinet Member approves, for onward submission to Council, the:

- Prudential Indicators forecast for 3 years
- Treasury Management Strategy 2011/12
- The Minimum Revenue Provision Policy for 2011/12
- Schemes of Delegation and Responsibility attached at Appendices 2 and 6

IMPLICATIONS -

Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Financial Implications and Risk Considerations	See Statement by Director of Finance and E-Government
Statement by Director of Finance and E-Government:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Equality/Diversity implications	No, see paragraph 11.1
Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Staffing/ICT/Property:	No implications
Wards Affected:	All
Scrutiny Interest:	Scrutiny Committee (Internal)

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Management Board	Cabinet Member/ Chair	Ward Members	Partners
	Cabinet Member		
Scrutiny Committee (Internal)	Cabinet	Committee	Council

1.0 INTRODUCTION

1.1 Background

Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.2 Statutory requirements

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

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 subsequent to the Act and included as paragraph 9 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 CIPFA requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24th February 2010.

Code of Practice Requirements	How we comply
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.	Our Treasury Management Policy Statement is set out in Appendix 5

	of this report.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.	We use the Treasury Management Practices as advised by Sector, our Treasury management consultants.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.	This report together with the mid year report already submitted fulfils this requirement.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.	The Council's delegation of responsibilities for treasury management is set out in Appendix 2 of this report.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.	For this Council the delegated body is Scrutiny Committee (Internal).

1.4 Treasury Management Strategy for 2011/12

The suggested strategy for 2011/12 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 adviser, Sector.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and treasury indicators
- the current treasury position
- prospects for interest rates
- the borrowing strategy
- the borrowing requirement
- debt rescheduling
- the investment strategy
- the minimum revenue provision strategy

1.5 Balanced Budget Requirement

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. For 2011/12 it is recommended that the Capital Programme be limited to schemes that are fully funded from external sources in order that borrowing is not increased and there are no additional burdens on the revenue budget.

2.0 TREASURY LIMITS FOR 2011/12 to 2013/14

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

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

3.0 PRUDENTIAL AND TREASURY INDICATORS FOR 2011/12 – 2013/14

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

PRUDENTIAL INDICATOR	2010/11	2011/12	2012/13	2013/14	
(1). AFFORDABILITY PRUDENTIAL INDICATORS	**Probable Outturn**	**Estimate**	**Estimate**	**Estimate**	
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	
Non – HRA	28,816	11,317	7,193	4,932	
HRA (applies only to housing authorities)	6,399	4,994	4,994	4,994	
TOTAL	**35,215**	**16,311**	**12,187**	**9,926**	1
Capital Financing Requirement (CFR)	**£'000**	**£'000**	**£'000**	**£'000**	
Non – HRA	133,666	136,729	130,688	124,889	
HRA (applies only to housing authorities)	40,887	40,887	40,887	40,887	
TOTAL	**174,553**	**177,616**	**171,575**	**165,776**	2
Affordable Borrowing Limit					
Estimate of incremental impact of capital investment decisions	**£**	**£**	**£**	**£**	
Increase in council tax (band D, per annum)	4.25	3.47	1.03	0.00	3
Increase in housing rent per week	0.0	0.0	0.0	0.0	4
Ratio of financing costs to net revenue stream					
Non – HRA	2.53%	2.68%	2.70%	2.70%	5
HRA (applies only to housing authorities)	6.81%	6.95%	5.69%	5.69%	5
Net External Borrowing only to support the CFR in Medium Term		**£'000**			
Net External borrowing over medium term		139,990			
Total CFR over Medium Term		174,553			
Net External Borrowing < Total CFR		TRUE			6

TREASURY INDICATOR	2010/11	2011/12	2012/13	2013/14	
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**Probable Outturn**	**Estimate**	**Estimate**	**Estimate**	
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	
Borrowing	214,500	214,500	214,500	214,500	
other long term liabilities	7,700	7,400	7,100	6,800	
TOTAL	222,200	221,900	221,600	221,300	7
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	
Borrowing	189,400	189,400	189,400	189,400	
other long term liabilities	7,700	7,400	7,100	6,800	
TOTAL	197,100	196,800	196,500	196,200	7
Upper limit for fixed interest rate exposure					
Net principal re fixed rate	140%	140%	140%	140%	8

borrowing / investments					
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	-40%	-40%	-40%	-40%	8
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£'000** 10,000	**£'000** 10,000	**£'000** 10,000	**£'000** 10,000	9

Maturity structure of new fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	40%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and above	90%	30%

3.2 In addition to the tabled prudential indicators, the Council is also required to formally adopt the CIPFA Code of Practice on Treasury Management.

3.3 Notes to the indicators:

1. Capital expenditure is derived from the Capital Programme forecast. Capital expenditure decreases over the 3 year forecast as further external funding is to be identified.

2. The Capital Financing Requirement relates to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The Capital Financing Requirement reflects the authority's underlying need to borrow.

3. The finance costs related to the increases in capital expenditure impact upon Council tax. The costs over the three year forecast fall as the estimated capital expenditure in the third year is lower therefore finance costs fall as loan interest falls and investment balances stay constant. The incremental impact of capital investment decisions on Council tax is explained in further detail in the body of this report, paragraph 7 - Capital Borrowing Requirement.

4. There is no direct impact of capital expenditure on housing rents as the housing rent is set according to Government formula.

5. Both General Fund and HRA finance costs to net revenue streams remain stable throughout the 3 year forecast.

6. To ensure that borrowing is only for a capital purpose and therefore show that the authority is being prudent this indicator compares the level of borrowing and capital financing requirement (CFR) over the medium term. The level of borrowing will always be below the CFR.

7. The authorised limit and operational boundary are consistent with the authority's plans for capital expenditure and financing. The authorised limit is the maximum amount that the authority can borrow. There is headroom within this limit to borrow the following 3 years capital financing requirement.

8. The variable and fixed limits together look at the whole portfolio and will therefore together always show 100% exposure. Variable interest rate limit can be positive or negative as investments under 364 days are classed as variable and are credit balances which are offset against debit variable loans. The smaller the balance of investments, the more likely the variable limit will be positive as the variable loan debit balance will be higher than the credit investment balance offset against it.

9. Principal sums invested for periods longer than 364 days has been set at £10 million. The investment balance is estimated to be cash flow driven, however if the opportunity arises that surplus investment balances are available then advantage will be taken of favourable rates.

4.0 CURRENT TREASURY PORTFOLIO POSITION

4.1 Treasury Management is a very dynamic area of the Council's financial management and involves forecasting trends in the market and matching these to the Council's overall financial objectives, both short–term and long-term. To assist Members in agreeing a strategy for 2011/12 the Council's current treasury portfolio position (at nominal value) is detailed below:

	31-Mar-10			**Forecast 31-Mar-11**		
	Principal		**Avg. Rate**	**Principal**		**Avg. Rate**
	£000	**£000**		**£000**	**£000**	
Fixed rate funding						
PWLB Bury	84,009			93,109		
PWLB Airport	7,878			5,996		
Market Bury	39,000	130,887		34,000	133,105	
Variable rate funding						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
Other Loans / Bonds	3	3		5,003	5,003	
Long Debt		**130,890**	**4.98%**		**138,108**	**4.90%**
Total Investments		**30,279**	**1.48%**		**25,000**	**1.25%**

4.2 The forecast accumulated capital financing requirement at the end of 2010/11 is £174.6m. The forecast borrowing at the end of 2010/11 is £138.1m meaning that the Authority is under borrowed by £36.5m.

4.3 The investment portfolio after the Capital Programme has been spent during 2010/11 is estimated to be around £25m. In preference to taking out long term borrowing, the Authority is running down investments to finance capital expenditure because investment returns are low at the present time. The estimated rate of interest on investments for 2010/11 is 1.25%.

5.0 PROSPECTS FOR INTEREST RATES

5.1 The Council has 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.

5.2 Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view:.

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

5.3 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within appendix 3 to this report.

6.0 BORROWING STRATEGY

6.1 Borrowing rates

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

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

A more detailed Sector forecast is included in appendix 2.

The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

1. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years
2. Temporary borrowing from the money markets or other local authorities
3. PWLB variable rate loans for up to 10 years
4. Short dated borrowing from non PWLB below sources
5. Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
6. PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

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

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

- *if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

6.2 External v. internal borrowing

The revised Prudential Code paragraph 43 now requires each authority to explain its policy on gross and net debt if there is a significant difference between them.

- This Council currently has a gross debt of £131.0m and investment balances of £30.3m at carrying values per the last audited accounts. This results in a net debt of £100.7m.
- The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments.

However, measures taken in the last year have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

- The next financial year is expected to be one with a low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.
- Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.
- However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.
- **This Council will keep a flexible approach and use internal borrowing (by reducing investments) to finance capital expenditure where it is prudent to do so.**

Against this background caution will be adopted with the 2011/12 treasury operations. The Director of Finance and E-Government will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

6.3 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.0 BORROWING REQUIREMENT

7.1 Based on a current forecast for the capital financing requirement plus the known fallout of existing debt, less the minimum revenue provision (MRP) and the voluntary revenue provision (VRP), the net borrowing requirement for the next three years is estimated to be as follows.

	2011/12 £'000 Estimate	**2012/13 £'000 Estimate**	**2013/14 £'000 Estimate**
New borrowing	0	0	0
Alternative financing	10,386	3,063	0
Replacement borrowing	10,000	7,500	7,500
Borrowing Requirement	**20,386**	**10,563**	**7,500**

7.2 The increase in the capital financing requirement (CFR) for 2010/11 is estimated at £10.386m and borrowing for this amount would normally take place in 2011/12. The increase in the CFR for 2011/12 is estimated at £3.063m and, should it be needed, borrowing for this amount would normally take place in 2012/13. The plan is to use a combination of internal borrowing (i.e. running down cash balances/investments) and temporary borrowing to finance these items, and to only use more long term borrowing (1 to 10 years) if required by the Council's underlying cash flow needs.

7.3 The overall effect of the finance costs on the General Fund for the next three years is detailed in the Affordable Borrowing Limit prudential indicator. This ultimately shows the effect of the proposed capital investment decision on the council tax compared to a situation with the same level of capital investment as occurred in the previous year.

Changes in the capital investment decision affects the movement in new borrowing for capital purposes, resulting in a change in the finance costs which impacts council tax.

Affordable Borrowing Limit	2011/12 Estimate	2012/13 estimate	2013/14 Estimate
Increase in Council tax	£3.47	£1.03	£0.00

7.4 The effect of increased finance costs on housing rents is zero as housing rents are determined by a government formula.

7.5 The borrowing levels of the council in 2011/12 may have to be increased because of equal pay settlements and the fact that Bury Council has made investments in Bury MBC Townside Fields Limited to fund the Townside Fields scheme.

7.6 Both Equal Pay and the Townside Fields scheme will be funded by a combination of running down cash/investment balances and taking new borrowing. There is sufficient headroom within the council's capital financing requirement to take on the additional debt that may therefore be required. Provision for potential revenue consequences has been included within the draft revenue budget.

8.0 DEBT RESCHEDULING

8.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

8.2 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council’s maturity profile as in recent years there has been a skew towards longer dated PWLB.

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

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the strategy outlined in paragraph 7 above
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

8.3 Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

8.4 All rescheduling will be reported to the Council as appropriate.

9.0 ANNUAL INVESTMENT STRATEGY

9.1 Investment Policy

9.1.1 The Council has regard to the Guidance on Local Government Investments ("the Guidance") issued by the Office of the Deputy Prime Minister (ODPM) (now Department for Communities and Local Government) 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.

9.1.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council recognises that the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

9.1.3 The guidance primarily focuses on high security and investing with bodies with high credit ratings. However, this focus only deals with credit risk i.e. the potential for default by a counterparty, as occurred with BCCI in 1991, which could result in the loss of the principal sum invested.

9.1.4 However, this approach does not deal with market risk i.e. an adverse movement in interest rates which, with some investment products, could lead to a diminution of the maturity value below that of the original principal sum invested. There is for example, potential for this to occur with investments in pooled investments i.e. collective investment schemes where an investment of cash is translated into the purchase of units in the fund. The value of these units is NOT guaranteed to remain unchanged between the date of investment and the maturity date. However, pooled vehicles do use rigorous methods to control their risk exposure and so consequently, they do have high credit ratings. But higher rates of return can usually only be achieved by taking on greater exposure to risk.

9.1.5 Therefore the categories of investments listed below are split between Specified and Non-Specified investments dependent on the level of credit and market risk the authority believes is associated with the investment categories.

9.1.6 In paragraph 20 of the commentary in the March 2004 guidance, specified investments are identified by the ODPM as requiring "minimal procedural formalities". Specified investments are therefore categorised of investment which are more risk averse.

9.1.7 The spirit of the guidance is that investment products which take on greater risk and therefore should be subject to greater scrutiny, should be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy and so should fall into the non specified category; this would apply regardless of whether they are under one year investments and have high credit ratings.

Specified Investments:

9.1.8 All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable. The table below details the different investment categories available.

Investment Category	**Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	N/A	In-house
Term deposits – other LAs	N/A	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house
Fixed term Deposits with variable rate & variable maturities:-		
1. Callable Deposits	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house
Certificates of deposits issued by banks and building societies	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house buy & hold after advice from Sector Treasury Services
UK Government Gilts	AAA	In-house buy & hold after advice from Sector Treasury Services
Bonds issued by multilateral development banks	AAA	In-house buy & hold after advice from Sector Treasury Services
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house buy & hold after advice from Sector

		Treasury Services
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house buy & hold after advice from Sector Treasury Services
Treasury Bills	Govt-backed	In-house buy & hold after advice from Sector Treasury Services
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
Money Market Funds	AAA	In-house

Sector have informed Bury Council that since the credit crunch there have been a number of developments which require separate consideration and approval for use: -

Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an F rating which means that at a historical point of 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.

Blanket guarantees on all deposits. Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee. The authority needs to decide if it wishes to rely on these blanket guarantees to authorise lending to banks covered by these guarantees and for which countries they are prepared to do so.

UK banking system support package. Please note that the UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. Again, the authority will need to decide if it wishes to authorise lending to those named banks on the basis of that implicit guarantee on local authority deposits placed with these eight banks or to rely on the credit ratings of the individual banks.

Other countries. The authority will also need to decide if it wishes to rely on this implicit guarantee for the banking systems of other countries. The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking system.

Please note that Sector does not provide an information service to clients on what countries other than the UK are doing to support their banking systems.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Banks nationalised by high credit rated (sovereign rating) countries	Sovereign AAA, Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3	In-house and fund managers	100%	As advised by Sector
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries	Sovereign rating AAA	In-house and fund managers	100%	As advised by Sector
UK Government support to the banking sector*	Sovereign rating AAA	In-house and fund managers	100%	As advised by Sector

*Banks supported by the UK support package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Non-Specified Investments:

9.1.9 A maximum of 100% can be held in aggregate in non-specified investments during the year. Non-specified investments for this local authority are surplus funds:

§ placed with counterparties for less than one year but do not meet the high credit rating described in specified investments
§ placed in investment structures or pooled investments that have a slightly higher level of risk
§ that are invested for periods greater than one year

9.1.10 The limit for investments to be placed for more than one year is 20%. The table shows the limits given to the different investment categories:

Non-Specified Investments Less than 1 year				
	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies - with lower ratings than specified investments : any maturity not greater than one year	Short-term F1, Long-term A, Individual B/C, Support 1,2,3	In-house	100%	Not greater than 1 year
Fixed term Deposits with variable rate & variable maturities :-				
1. Range Trades	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house	10%	Not greater than 1 year
2. Snowballs (investments with fixed and variable elements)	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house	10%	Not greater than 1 year
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):-				
1. Enhanced cash funds	Short-term F1+, Long-term AA-,	In-house	10%	Not greater than 1 year
2. Short term funds	Short-term F1+, Long-term AA-,	In-house	10%	Not greater than 1 year
3. Bond funds	Short-term F1+, Long-term AA-,	In-house	10%	Not greater than 1 year
4. Gilt funds	Short-term F1+, Long-term AA-,	In-house	10%	Not greater than 1 year

Non-Specified Investments in excess of 1 year				
	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – other Las	N/A	In-house	10%	5 years
Term deposits – banks and building societies	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2	In-house	10%	5 years
Fixed term Deposits with variable rate & variable maturities :-				
1. Callable Deposits	Short-term F1+,	In-house	10%	5 years

	Long-term AA-, Individual B/C, Support 1,2,3 or equivalent			
2. Range Trades	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house	10%	5 years
3. Snowballs (investments with fixed and variable elements)	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2,3 or equivalent	In-house	10%	5 years
Certificates of deposits issued by banks and building societies	Short-term F1+, Long-term AA-, Individual B/C, Support 1,2	Fund managers	10%	5 years
UK Government Gilts	AAA	Fund Managers	10%	5 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	10%	5 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA / government guaranteed	In-house on a 'buy-and-hold' basis. Also for use by fund managers	10%	5 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	Fund Managers	10%	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):-				
1. Bond Funds	Short-term F1+, Long-term AA-	In-house	10%	5 years
2. Gilt Funds (UK Government Bonds)	Short-term F1+, Long-term AA-	In-house	10%	5 years

9.1.11 In addition to listing the Investment Categories that the Council can use overall, it is necessary to determine detailed limits for investment categories that are used on a daily basis for short term investments. This incorporates the high credit criteria detailed for specified investments and also the credit criteria detailed for non- specified investments.

9.2 Creditworthiness policy

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

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

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

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

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

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

9.2.5 All credit ratings will be monitored daily and weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

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

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

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

9.3 Country limits

9.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) The list of countries that qualify using this credit criteria as at the date of this report are shown in appendix 4. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

9.4 Investment Strategy

9.4.1 **In-house funds***:* 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).

9.4.2 **Interest rate outlook**: Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 4 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

There is downside risk to these forecasts if economic growth is weaker than expected. There is also a risk that the MPC could decided to start raising Bank Rate in quarter 3 of 2011 if it feels it needs to contain inflation and meet the inflation expectations of the public.

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

For 2011/12 it is suggested that the Council should budget for an investment return of 0.90% on investments placed during the financial year.

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

9.5 End of year investment report

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

9.6 Policy on the use of external service providers

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

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

9.6.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

9.7 Scheme of delegation

Please see appendix 6.

9.8 Role of the section 151 officer

Please see appendix 7.

10.0 MINIMUM REVENUE PROVISION POLICY (MRP) 2011/12

10.1 The concept of MRP was introduced in 1989 to prescribe the minimum amount which must be charged to the revenue account each year to meet credit liabilities (borrowing and leasing costs).

10.2 The Council will follow the same policy in 2011/12 as it did in 2010/11 Accordingly it is recommended that the:

- Regulatory method for calculating MRP be used for supported borrowing
- Asset Life method of calculating repayment provision be used for unsupported borrowing

10.3 It is to be noted that the above policy resulted in MRP savings of £120,000 in 2009/10 and is expected to generate similar savings in 2010/11 and 2011/12.

11.0 EQUALITY & DIVERSITY

11.1 An initial input assessment has been undertaken and it is concluded that there will be no negative impact from this report.

COUNCILLOR IAIN GARTSIDE
CABINET MEMBER FOR RESOURCE, HUMAN RESOURCE AND PERFORMANCE

For further information on the contents of this report, please contact:
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APPENDIX 1 INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector: interest rate forecast – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics: interest rate forecast – 12.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

UBS: interest rate forecast (for quarter ends) – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

2. Survey of Economic Forecasts

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2011		ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	2.00%		0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.50%		2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.80%		0.50%	0.50%	0.60%	1.20%

Appendix 2

DELEGATION AND RESPONSIBILITY

The following personnel are involved on a regular basis in Treasury Management: -

Director of Finance and E-Government (Mike Owen)	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy.
Head of Financial Management (Andrew Baldwin)	Deputise for the Director of Finance and E-Government. Direct supervision of Treasury Management function. Assist in reviews of Treasury Management Strategy and monitor performance.
Group Accountant (Treasury Management) (Peter Harrington)	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Senior Accountancy Assistant (Stephen Blake)	Deputise for Group Accountant in his duties as required.
Senior Accountant – Capital & External Funding (Angela Sozansky)	Deputise for Group Accountant in his duties as required
Senior Accountancy Assistant (Chris Peel)	Standby for allocation of short term business via brokers
Accountancy Assistant (Linda Hughes)	Standby for allocation of short term business via brokers.

Please note that the Council's signatories for treasury management transactions

are :-

Mike Owen, Director of Finance and E-Government

Stephen Kenyon, Head of Strategic Finance

Andrew Baldwin, Head of Financial Management

Lewis Magid, Principal Accountant

APPENDIX 3 ECONOMIC BACKGROUND

Economic Background

3.1. Global economy

The sovereign debt crisis peaked in May 2010 prompted in the first place by concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This culminated in the EU and IMF putting together a €750bn support package in mid May. In November 2010 Ireland also had to receive support. At the time of writing (early January 2011) there is a concern that Portugal will also shortly need to receive support. That, in turn, would then stoke concerns as to whether the current size of the support facility put together by the EU and IMF will be big enough to cope with any crisis that arise over Spanish government debt.

The high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for weak (but not negative) growth in 2011 in the western world.

3.2 UK economy

Following the general election in May 2010, the coalition government has put in place a plan to carry out correction of the public sector deficit over the next five years. The net result may have an impact on consumer and business confidence and on the housing market. House prices started on a generally negative trend starting in mid 2010 and mortgage approvals are also at low levels, all of which indicates that the housing market is likely to be weak in 2011.

Economic Growth – GDP growth was +1.2% in quarter 2 of 2010. Growth in quarter 3 was +0.7%. However, the outlook is for weak growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (+2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and then gradually declined to 3.1% in September (RPI 4.6%). However, the outlook from there is a rising trend which could reach as much as 4% in early 2011 before starting to subside again. Although inflation has remained above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, expectation of a second round of quantitative easing in early 2011, to help support economic growth, has evaporated after the Q3 GDP figure of +0.7% and the November Inflation Report revising the forecast for short term inflation upwards.

Sector's central view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing warnings that unless there was a fiscal contraction, then the AAA sovereign rating was at risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors viewed UK government gilts as being a safe haven from EU government debt during mid 2010. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

3.3 Sector's forward view

It is currently difficult to predict how strong UK economic growth is likely to be during 2011/12, and there are a range of views in the market. Sector has adopted a moderate view. There are uncertainties in all forecasts due to the difficulties of forecasting the following areas:

- the strength / weakness of economic growth in our major trading partners - the US and EU
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential in the US for more quantitative easing, and the timing of this and its subsequent reversal in both the US and UK
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

APPENDIX 4 Approved countries for investments

AAA

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

AA+

- Australia
- Belgium
- Hong Kong

AA

- Japan
- Kuwait
- Qatar (AA S&P rating)
- UAE

AA-

- Italy
- Saudi Arabia

APPENDIX 5 TREASURY MANAGEMENT POLICY STATEMENT

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

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

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

APPENDIX 6 Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Boards/committees/Council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

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

APPENDIX 7 The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.