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CABINET – 2 FEBRUARY 2005 FINANCE & SUPPORT PORTFOLIO

EXECUTIVE SUMMARY – TREASURY MANAGEMENT STRATEGY REPORT 2005/06

Summary of Purpose and Recommendations:

To recommend to Members a strategy for the treasury function of the Council for 2005/06. This recommendation covers the financing of the capital expenditure for 2005/06 and the borrowing and investment of funds. The recommendations for the borrowing strategy are to limit, within broad boundaries, the loans that may be raised and the terms of those loans. The investment strategy covers the credit worthiness of the investments that can be undertaken by the Council and the liquidity and maturity terms of the loans. The financing of the capital expenditure is detailed in order to show the cost to the Council and the taxpayer of the Council's capital programme. All of these items are expressed by a series of Prudential Indicators that were introduced in April 2004 to provide a framework for capital expenditure decision making. The figures are also projected for the next two financial years.

Cost to Council: As shown in the report and also in the Budget Report on this agenda.
Within existing budget?

Contribution to Corporate Plan (Minor/Moderate/Major/Neutral):

	+	⚖	-
	MAJOR		
		NEUTRAL	
	MAJOR		
	MINOR		
		NEUTRAL	

	+	⚖	-
Priorities			
Clean Streets & Public Places		NEUTRAL	
Crime & Disorder		NEUTRAL	
Housing		NEUTRAL	
Managing our Finances	MAJOR		

Comments on Impacts on Corporate Objectives and Priorities:

The approval of the strategy will determine the indicators for 2005/06 and recognise the impact of the expenditure programme.

Organisation of excellence · Working with public and partners · Economic well being · Social well being · Environmental well being

CABINET 2 FEBRUARY 2005

TREASURY MANAGEMENT STRATEGY REPORT 2005/06

1. INTRODUCTION

1.1 The Prudential Code for Capital Finance in Local Authorities (The Code) was introduced with effect from 1 April 2004. The Code gives the Council greater freedom for future capital investment plans.

1.2 Under The Code, the Council must agree, and monitor, a minimum number of mandatory prudential indicators. The indicators cover the affordability, prudence, capital expenditure, external debt and the Council's treasury and investment strategies for each financial year. These can be supplemented with local indicators if required.

1.3 The purpose of the indicators is to provide a framework for capital expenditure decision making. It highlights the level of capital expenditure and the impact of that expenditure on borrowing and investment levels, which will affect the treasury management strategy for future years.

1.4 The production of the treasury management strategy each year is a requirement of the CIPFA Code of Practice on Treasury Management. This strategy incorporates investment guidance issued by the ODPM in March 2004.

1.5 The indicators for 2005/06 must be agreed prior to 1 April 2005. In addition, the indicators for the following 2 years are also estimated. This informs Members of the treasury management requirements of the estimated capital expenditure and the implications of this expenditure in the medium term.

1.6 This report informs members of the treasury strategy and recommends the prudential indicators for 2005/06.

2. PRUDENTIAL INDICATORS AND STRATEGIES FOR 2005/06

2.1 The reporting of the main prudential indicators, in accordance with the requirements of The Code, is shown at appendix 1.

2.2 The Treasury Strategy, including the specific treasury management prudential indicators and the investment strategy, is shown at appendix 2.

3. RECOMMENDATIONS

Members are recommended to:

3.1 Adopt the prudential indicators at appendix 1.

3.2 Approve the treasury management strategy and adopt the treasury prudential indicators at appendix 2.

Further Information
Please contact Jan Hawker, Treasury Management Accountant Ext. 5722
e-mail: jan.hawker@nfdc.gov.uk

Background Papers
The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance.
General Fund Revenue Budget and Capital Programme 2005/06 (on this agenda)
Expenditure Plan Proposals (Cabinet 5 January 2005)

THE MAIN PRUDENTIAL INDICATORS

1. CAPITAL EXPENDITURE AND CAPITAL FINANCING REQUIREMENT

1.1 Each year the Council approves a programme of capital expenditure. Some of this expenditure will be supported by the Government; the remainder will need to be financed from the Council's own sources. Some of this expenditure that cannot be financed from funds such as capital receipts, capital grants and other sources will impact on the Council's underlying need to borrow.

1.2 This underlying need to borrow is called the Capital Financing Requirement (CFR).

1.3 To determine the historic CFR, the Council's balance sheet is analysed and a figure is calculated that represents how much money has been borrowed to fully finance capital expenditure in previous years.

1.4 Future capital expenditure, and it's financing, will impact on the CFR. If any of the financing of the capital expenditure is met by raising a loan, either immediately or in the future, the CFR will alter by the amount of the loan.

1.5 Capital Expenditure

The capital expenditure projections and the CFR are shown below. A more detailed schedule for these projections is included in the main budget report on this agenda.

The capital expenditure has been increased by the amount of the programme for the acquisition of equipment, which is included in another report on this agenda. The financing figures below assume that members approve the policy of purchasing this equipment by borrowing instead of using lease finance.

	2003/04 Actual £000	2004/05 Revised £000	2005/06 Estimated £000	2006/07 Estimated £000	2007/08 Estimated £000
Capital Expenditure					
Total expenditure	12434	12537	13483	17325	20866
Financed by:					
Capital receipts	740	1567	4037	2136	2136
Capital grants	1478	1524	1883	8149	12400
Capital reserves	3380	2816	283	273	-218
Developers Contr.	1310	1543	324	9	0
Revenue	5526	3869	5580	5430	5430
Net capital borrowing requirement	0	1218	1376	1328	1118

1.6 Capital Financing Requirement

The net capital expenditure will impact directly on the overall CFR if borrowing is undertaken as shown at 1.5 above. For the purposes of this report any assumed borrowing requirement is met by raising loans in line with the expenditure detailed in the capital programme. In reality this borrowing may be delayed depending on the forecast of interest rates over the medium term and the Council's internal cash flow. Consideration will be given to using the cash held in the Council's reserves prior to raising loans from external organisations. The projections for the CFR at each year end are shown below:

	2003/04 Actual £m	2004/05 Revised £m	2005/06 Estimated £m	2006/07 Estimated £m	2007/08 Estimated £m
Capital Financing Requirement					
CFR–Non Housing	2	3	5	6	7
CFR - Housing	2	2	2	2	2
Total CFR	4	5	7	8	9
Net movement in CFR		1	2	1	1

1.7 External Debt and Investments

The expected impact of the capital expenditure decisions on the Council's debt and investment position are shown below:

	2003/04 Actual £m	2004/05 Revised £m	2005/06 Estimated £m	2006/07 Estimated £m	2007/08 Estimated £m
External Debt					
Borrowing	4	1	3	4	5
Other long term liabilities	0	0	0	0	0
Total Debt at 31 March	4	1	3	4	5
Investments					
Investments at 31 March	20	14	11	10	10

The movement of the total investments of £6 million between the 2003/04 actual and the 2004/05 revised estimates reflects the use of investments to repay temporary debt outstanding at 31 March 2004 and the financing of capital expenditure during 2004/05.

2. LIMITS TO BORROWING ACTIVITY

2.1 Net External Borrowing

The Council needs to make sure that net external borrowing does not exceed the total CFR for 2004/05 plus the estimates of any additional CFR for 2005/06 and the following two years. This allows some flexibility for limited borrowing in advance of the need to spend. This means that treasury decisions can be made when interest rates are at the most beneficial to the Council.

Net External Borrowing	2004/05 Comparator £m	2005/06 Estimate £m	2006/07 Estimate £m	2007/08 Estimate £m
Gross Borrowing	1	3	4	5
Investments	14	11	10	10
Net Borrowing	-13	-8	-7	-5
CFR	5	7	8	9

2.2 The Authorised Limit

This is the limit beyond which borrowing is prohibited and needs to be set by Members for each financial year. It reflects the level of borrowing that, while not desired or sustainable, could be required in the short-term. It is the maximum borrowing required with some headroom for unexpected cash flow movements and includes both temporary borrowing for cash flow purposes and long term borrowing to finance capital expenditure.

Authorised limit for external debt	**2004/05 £m Comparator**	**2005/06 £m Estimate**	**2006/07 £m Estimate**	**2007/08 £m Estimate**
Borrowing	23	20	22	24
Other long term liabilities	0	0	0	0
Total	23	20	22	24

2.3 The Operational Boundary

This indicator is based on the probable external debt during the course of the year. It is not a limit and the borrowing of the Council could vary around this boundary for short times during the year. It is a warning indicator to flag up total borrowing and to help ensure that the Authorised Limit is not breached.

This operational boundary includes both temporary borrowing for cash flow purposes and long term borrowing to finance capital expenditure.

Operational boundary for external debt	**2004/05 £m Estimate**	**2005/06 £m Estimate**	**2006/07 £m Estimate**	**2007/08 £m Estimate**
Borrowing	1	3	4	5
Other long term liabilities	0	0	0	0
Total	1	3	4	5

3. AFFORDABILITY INDICATORS

The previous sections cover the prudential indicators for capital and borrowing. This section assesses the affordability of the capital investment plans. These provide an indication of the impact of the capital programme on the Council's finances.

3.1 Financing Costs

This section shows the cost of financing the council's borrowing. As long as the Council remains debt free the financing costs will be negative. Should the council decide to borrow to fund the capital programme over the time span of this strategy it is estimated that the financing costs will remain negative as the interest paid on borrowing will be offset by interest earned on investments. The following table shows the estimated financing costs for the period from 2004/05 to 2007/08.

Financing Costs	2003/04 Actual £000	2004/05 Forecast £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
Interest due for short-term borrowing	21	21	21	21	21
Interest due for long-term debt	854	28	88	151	206
Penalties paid on early repayment of debt	343	515	416	242	182
Interest income	-1320	-1380	-1222	-985	-805
Replacement for MRP	0	0	0	0	5
Total Financing Costs	-102	-816	-697	-571	-391

3.2 Ratio of financing costs to net revenue stream

The net revenue stream is the amount of revenue expenditure met from government grant and local tax. The following table shows the effect of the estimated financing cost, against the estimated net revenue stream. This assesses the cost of borrowing to the revenue account.

	2004/05 Comparator	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
Non - HRA	-4%	-4%	-3%	-2%
HRA	0%	0%	0%	0%

3.3 Estimates of the incremental impact of capital investment decisions on the Band D Council Tax

This shows how the three-year capital programme recommended in this budget report will affect the Band D Council Tax. It is based on assumptions and these will vary as levels of government support are not published over a three-year period.

This will not be the total estimated increase/reduction as there will be savings/additional expenditure in other areas to offset the change in the revenue charge for capital. This indicator assesses the revenue cost of the capital programme in isolation from any other expenditure that may generate a revenue charge.

	Proposed Budget 2005/06	Forward Projection 2006/07	Forward Projection 2007/08
Change to Council Tax-Band D	7.59%	-1.15%	-1.89%
Change to Council tax cost year on year	£9.94p	-£1.62p	-£2.64

3.4 Estimates of the incremental impact of capital investment decisions on housing rent levels

The Council has adopted the Government's rent restructuring policy. As such, the unsupported element of the capital programme has no impact on rent levels. Any revenue financial implications of the programme are covered from balances or through adjustments to other revenue budgets.

This indicator below shows the cost of proposed changes in the housing capital programme, as recommended in this budget report, expressed as a change in weekly rent levels if the Government's rent restructuring policy had not been adopted.

	Proposed Budget 2005/06	Forward Projection 2006/07	Forward Projection 2007/08
Weekly Housing Rent levels	£3.82p	-£0.19p	£0.00p

TREASURY MANAGEMENT STRATEGY 2005/06 – 2007/08

1. INTRODUCTION

1.1 The importance of the treasury management service has increased as a result of the freedoms provided by the Prudential Code.

1.2 This Treasury Management Strategy covers the council's borrowing and investment activities and the effective management of associated risks.

1.3 Treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management and the Treasury Management Policy Statement on 25 February 2002.

1.4 The Treasury Management Policy requires an annual strategy to be reported to Cabinet outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year.

1.5 A key requirement of this strategy report is to explain both the risks, and the management of the risks, associated with the treasury service. These risks are shown at paragraphs 2 and 3 below.

1.6 Whilst the main prudential indicators at appendix 1 consider the affordability and impact of capital expenditure decisions, the prudential indicators in this appendix, at paragraph 3.6, relate to the treasury service that covers the effective funding of these decisions.

2. TREASURY MANAGEMENT PRACTICE – credit and counterparty risk

2.1 The Office of the Deputy Prime Minister issued investment guidance on 12 March 2004. Together with the relaxation of borrowing controls under the Prudential Code, this guidance replaces the previous regulations.

2.2 The key intention of the investment guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield.

2.3 The prudential code requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and includes the statement of Treasury Management Practices

2.4 This Council adopted this code of practice on 25 February 2002 and will apply its principles to all investment activity. In accordance with the Prudential Code this part of the approved treasury management practices must be agreed prior to each financial year and amended if necessary.

2.5 Annual Investment Strategy

2.5.1 The key requirements of both the Code and the ODPM guidance are to set an annual investment strategy covering the identification and approval of the Investment Policy as follows:

- The strategy guidelines for decision making on investment decisions. See paragraph 2.6.1.
- Specified investments that the Council will use. - These are highly credit rated and highly liquid investments in sterling and with a maturity of no more than a year. See paragraph 3.4.2 below.
- Non-specified investments that the Council will use. - This identifies the greater risk implications of investments that are not so highly credit rated. It specifies the limits for which investments may be made with each counterparty at any time. See paragraph 3.4.3 below.

2.5.2 It should be noted that specified and non-specified investments are both approved under the new guidance and both should normally form part of a council's policy.

2.6. Investment Policy

The investment policy summarises the main aims and objectives if the investment function of the treasury management service. The policy proposed for the Council is:

2.6.1 Strategy Guidelines

The main principle governing the Council's investment criteria is the security and liquidity of its investments before yield. However, the yield or return on the investment will be a consideration subject to adequate security and liquidity. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out the maximum periods for which funds may prudently be invested. See paragraph 3.6.2.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections at section 3.4 below.
- The Director of Resources will maintain a counterparty list in compliance with these criteria and will revise the list as necessary for practical use. The current proposed criteria is shown in section 3.4 below for approval.

3. THE TREASURY MANAGEMENT STRATEGY

This strategy covers:

- The current treasury position
- The expected movement in interest rates
- The borrowing and debt strategy
- The investment strategy (in compliance with the ODPM guidance)
- The monitoring of investment counterparties
- Prudential indicators and limits on treasury activities
- The use of external fund managers
- Performance indicators
- Local treasury issues

3.1 The Current Treasury Position

The Council's treasury position is highlighted in the following table. This includes estimated levels of temporary borrowing and investments as well as long-term requirements.

	31/3/04 Actual £m	Rate	31/3/05 Estimate £m	Rate
Fixed Rate Debt	4	4.0%	1	5.0%
Variable Rate Debt	0	-	0	-
Total Debt	**4**	**4.0%**	**1**	**5.0%**
Other Long Term Liabilities	0	-	0	-
Total	**0**	**-**	**1**	**5.0%**
Fixed Investments	-20	-3.9%	-14	-5.0%
Variable Investments	0	-	0	-
Total Investments	**-20**	**-3.9%**	**-14**	**-5.0%**
Net Borrowing	**-20**	**-3.9%**	**-13**	**-5.0%**

3.2 The Expected Movement In Interest Rates

3.2.1 The Bank of England's (the Bank) November Inflation Report tended to support the view that UK interest rates would remain on hold at 4.75%, although the possibility of one more hike to a peak of 5% cannot be ruled out entirely at this stage.

3.2.2 International growth in 2004 is expected to be at its strongest for 30 years but is expected to ease back in 2005, because of tighter monetary conditions in the US, China and the UK and the deflationary impact of the rise in oil prices. Beyond 2005, global GDP growth is forecast to remain steady.

3.2.3 In the UK, the continued rise in the housing market has begun to slow down and the Bank is suggesting that house price inflation could move into modestly negative territory. The Bank suggests that the close relationship between house price inflation and spending growth has weakened so that falling house prices may not be accompanied by a sharp decline in consumers' expenditure. The strength of the labour market may account for this.

3.2.4 UK growth is expected to decelerate modestly. The depreciation in the value of sterling should mean an eventual improvement in the trade balance.

3.2.5 The annual rate of increase of the Consumer Price Index (the European Union harmonised rate of inflation) is expected to rise to 2% in two years time and a little more thereafter. Some supply problems, higher energy prices and the adverse effects of currency depreciation are cited as principal reasons for this. Nevertheless, the Bank does not anticipate a significant increase in labour costs and suggests that a rise in manufacturing inflation is being offset by greater stability in the service sector.

3.2.6 The expected movement in interest rates are as follows:

Medium-Term Rate Forecasts – Annual Averages %

Year	Base Rate %	5-year Gilt %	20-yr Gilt %
2004/05	4.6	4.8	4.9
2005/06	4.6	4.7	4.8
2006/07	4.3	4.5	4.6
2007/08	4.8	5.0	5.1

3.2.7 The key risk to the forecast is the strength of the US recovery. A fall in consumer confidence may see the US recovery falter and the current upward pressure on UK interest rates will cease. Any increase will then be ruled out with base rates remaining at 4.75% for some time before reducing in 2005.

3.2.8 Alternatively a rise in consumer confidence in the US may fuel recovery and this may boost the world economy causing inflationary pressures and higher than expected increases in interest rates.

3.3 Borrowing And Debt Strategy 2005/06 – 2007/08

3.3.1 The introduction of the Prudential Code and uncertainty over future interest rates increases the risks associated with the treasury strategy. As a result the Council will take a cautious approach to its treasury strategy.

3.3.2 Although the Council is debt free currently, some borrowing may be needed during 2005/06 and in future years to fund capital purchases if members decide that other forms of asset acquisition, such as leasing, are no longer to be pursued. A maximum of £5m could be required to fund asset purchases that are currently in the leasing programme over the time span of this strategy.

3.3.3 The Director of Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

3.4 Investment Strategy 2005/06 – 2007/08

3.4.1 The main principle governing the Council's investment criteria is the security and liquidity of its investments before interest earned. However, the amount of interest earned will be a consideration. After this main principle the Council will ensure:

- That it has sufficient liquidity in its investments. For this purpose it will set out the maximum periods for which funds may prudently be invested. See paragraph 3.6.2.

- That it maintains a policy for the categories of investment it will invest in and for counterparties with adequate security. This is set out in the Specified and Non-Specified investment sections below.

3.4.2 Specified Investments

These investments are made in sterling and have a duration of 1 year or less. They can be for a longer period but the council will have the right to be repaid within 12 months if it wishes.

These are low risk investments where the possibility of loss of principal or investment income is very low. Specified investments include:

- UK Government - (including gilts and the DMO)
- Local Authorities, Parish Councils etc
- Supranational Bonds
- Banks and Building Societies – which have at least the following short – term credit ratings

Credit Rating Agency	Short – Term Credit Rating
Fitch	F1 or F1+
Moody's	P – 1
Standard & Poors	A – 1 or A – 1+

- Money Market Funds – highly rated by a credit rating agency

3.4.3 Non-Specified Investments

Non – Specified investments are any other type of permissible investment not defined as specified above and include:

- UK Government Gilts with a maturity of greater than 1 year.
- Local Authorities, Parish Council etc with a maturity of greater than 1 year.
- Supranational bonds – with a maturity date beyond 1 year.
- Institutions not meeting the credit rating at 3.4.2 above and where other restrictions have been applied.

Counterparty Criteria	Investment Restrictions
Unrated fully owned subsidiaries of highly credit rated institutions	£3m for up to 6 months
Unrated Building Societies with total assets greater than £500 billion.	£5 million for up to 6 months
Unrated Building Societies with total assets greater than £250 billion but less than £500 billion	£3m for up to 3 months
Local Authorities	£5m for up to 4 years

- Banks and Building Societies – with a high credit rating but with a maturity of more than 1 year as follows:

Long-Term Credit Rating	Maximum Period of Investment
A (+/-)	Up to 2 years
AA (+/-)	Up to 4 years
AAA (+/-)	Up to 5 years

3.4.4 The longer-term investments will also need to fit in with the principles of the treasury prudential indicator for total sums invested for periods longer than 364 days.

3.4.5 The Council will ensure that no more than 20% of the current total sum invested may be deposited with any one organisation at any one time at the time of investment. But if the total sum invested is less than £2.5m, then the maximum investment may be £500,000.

3.4.6 In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used as both categories allow for short-term investments.

3.4.7 The use of longer term investments will be within the parameters shown at 3.6.2 below and will depend on the council's need for liquidity,

3.5 The Monitoring of Investment Counterparties

3.5.1 The credit rating of counterparties will be monitored regularly, as a policy at least monthly. However the Council receives credit rating advice from its advisers, on a daily basis as and when ratings change, and counterparties are checked promptly.

3.5.2 There will be a minor time delay between rating changes and the Council receiving notification, and on occasion ratings may be downgraded when an investment has already been made.

3.5.3 The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list and new counterparties which meet the criteria will be added to the list.

3.6 Prudential Indicators and Limits on Activity.

3.6.1 The purpose of the treasury prudential indicators is to contain the activity of the treasury function within certain limits. This will help highlight the effect that borrowing and investment will have on the Council's overall financial position.

3.6.2 The indicators for borrowing are:

- Upper limits on fixed rate exposure –
  Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- Upper limits on variable rate exposure –
  This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

- Maturity structure of borrowing –
  These limits are set to heighten the awareness of borrowing fixed interest rate loans for varying periods and to reduce the council's exposure to the refinancing of the loans when maturity is reached. Each limit has been set at 100% because only limited borrowing is envisaged at this time. If a loan is raised for any purpose it would, by it's very nature, fall into one of the periods and not be spread over a range of periods. The limits are required for upper and lower limits.

These are shown in the following table:

Borrowing	**2005/06 Upper**		**2006/07 Upper**		**2007/08 Upper**	
Limits on fixed interest rates	100%		100%		100%	
Limits on variable interest rates	50%		50%		50%	
Maturity Structure of fixed interest rate borrowing						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	100%	0%	100%	0%	100%
2 years to 5 years	0%	100%	0%	100%	0%	100%
5 years to 10 years	0%	100%	0%	100%	0%	100%
10 years and above	0%	100%	0%	100%	0%	100%

3.6.3 The limits for investment are:

- Estimated interest receivable on net investments-
  The limits on fixed and variable interest rates give an indication of the potential volatility of the interest earnings.

- Total principal funds invested –
  These limits are set to help identify the total sums available for investment over the year and the amount of funds that are not needed immediately for revenue or capital purposes and therefore can be invested for longer periods.

- Total principal funds invested for more than 364 days –
  These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

- Maturity structure of investments –
  These limits are set to highlight the sums that are not immediately required for expenditure purposes and therefore may be invested for periods longer than 364 days. Each limit is set at 100% because only a limited value of funds will fall into this category.

These are shown in the following table:

<table>
<tr><th>Investments</th><th colspan="2">2005/06
Upper</th><th colspan="2">2006/07
Upper</th><th colspan="2">2007/08
Upper</th></tr>
<tr><td>Estimated interest receivable on net investments</td><td colspan="2">£1.113m</td><td colspan="2">£0.813m</td><td colspan="2">£0.578m</td></tr>
<tr><td>Estimated Maximum sums invested</td><td colspan="2">£37m</td><td colspan="2">£35m</td><td colspan="2">£35m</td></tr>
<tr><td>Estimated Maximum sums invested for more than 364 days</td><td colspan="2">£5m</td><td colspan="2">£5m</td><td colspan="2">£5m</td></tr>
<tr><td colspan="7"></td></tr>
<tr><th colspan="7">Maturity Structure of investments</th></tr>
<tr><td></td><th>Lower</th><th>Upper</th><th>Lower</th><th>Upper</th><th>Lower</th><th>Upper</th></tr>
<tr><td>Under 12 months</td><td>50%</td><td>100%</td><td>50%</td><td>100%</td><td>50%</td><td>100%</td></tr>
<tr><td>12 months to 2 years</td><td>0%</td><td>50%</td><td>0%</td><td>50%</td><td>0%</td><td>50%</td></tr>
<tr><td>2 years to 5 years</td><td>0%</td><td>50%</td><td>0%</td><td>50%</td><td>0%</td><td>50%</td></tr>
</table>

3.7 USE OF EXTERNAL FUND MANAGERS

3.7.1 The Council uses external fund managers for part of its investment portfolio currently. The fund managers use both specified and non-specified categories of investment. The terms of the fund managers' investment policies are:

Limits and Restrictions	Policy
Benchmark	7-day LIBID rate compounded weekly.
Performance Target	Benchmark plus 1%.
Maturity Limits	Average duration for the fund will not exceed 2.5 years. Maximum proportion of Fund invested in instruments carrying rates of interest for periods longer than 364 days shall not exceed 60%. Maximum maturity of any investment shall not exceed 10 years
Currency Limits	Sterling
Permitted Investments	Investment is limited in accordance with the requirements of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.

Exposure Limits	The Managers lending list shall apply. Counterparties with a short-term rating of F1+ according to current ratings provided by Fitch (specified investments). The maximum nominal sum, which may be lent to each name, shall be 20%. There will be no limit on investment in the obligations of the UK Government whether specified or non-specified other than those stated under maturity limits above. The manager may invest in the securities of other borrowers, as permitted under the Approved Investment Rule up to a maximum nominal investment of 30% per name subject to a long-term credit rating of AA.

3.7.2 The performance of the fund manager is monitored and reviewed at least monthly.

3.7.3 The fund managers only make short-term investments as the liquidity of the fund is of paramount importance currently. Long-term investments are outside of the fund manager's current parameters. Therefore no limits have been set for long-term investments but this will be considered if required in the future.

3.7.4 The money placed with the external fund managers represents some of the capital reserves of the Council. Over the time span of this strategy report some of these funds may be needed to finance the acquisition of assets. The Director of Resources will decide the amount and the timing of any withdrawal to best meet the needs of the Council.

3.8 Performance Indicators

3.8.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Investments – In-house fund returns should be above the average 7 day LIBID rate

- Investments – External fund managers net returns should be benchmarked at 7 day LIBID compounded weekly with a target return of 1.0% above that benchmark.

3.8.2 The results of these indicators will be reported in the Annual Treasury Report at each year-end.

3.9 Local Issues

There are no local issues other than those currently included in the body of this report.

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