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CABINET 1 FEBRUARY 2006

TREASURY MANAGEMENT STRATEGY REPORT 2006/07

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 approve, revise and monitor a minimum number of mandatory prudential indicators. The indicators cover the affordability and prudence of 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 Each year's capital expenditure programme is financed by using a variety of sources of funding. One of these sources is debt. Each year the programme generates a borrowing requirement and this is the amount of loan that the council will have to raise to adequately fund the programme. Loans can be raised in advance or in arrear of generating the borrowing requirement. The most beneficial time to raise loans will depend on prevailing interest rates and the Director of Resources, under delegated powers, will determine the most beneficial form of borrowing at the most advantageous time.

1.5 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.

1.6 The indicators for 2006/07 must be agreed prior to 1 April 2006. 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.

1.7 This report informs members of the treasury strategy and recommends the prudential indicators for 2006/07.

2. PRUDENTIAL INDICATORS AND STRATEGIES FOR 2006/07

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

That Cabinet recommends Council to :-

3.1 adopt the prudential indicators at appendix 1, and

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

3.3 approve this treasury strategy for 2006/07.

Further Information
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Background Papers
The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance.
General Fund Revenue Budget and Capital Programme 2006/07 (on this agenda)
Expenditure Plan Proposals (Cabinet 4 January 2006)

APPENDIX 1

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. Any provision that is made to repay loan in the future will also alter the CFR.

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.

Capital Expenditure	2004/05 Actual £000	2005/06 Revised £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000
Total expenditure	10541	13282	13385	12289	17894
Capital receipts	1432	3802	1880	717	716
Capital grants	1288	1458	1928	3724	9698
Capital reserves	2043	804	1107	138	-614
Developers Contr.	1184	569	358	0	0
Revenue	3472	5019	6048	6048	6048
Net capital borrowing requirement	1123	1630	2064	1662	2046

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, or loans may be raised in advance, 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:

Capital Financing Requirement (CFR)	**2004/05 Actual £m**	**2005/06 Revised £m**	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
CFR–Non Housing	3	4	6	6	7
CFR - Housing	2	2	2	2	2
Total CFR	5	6	8	8	9
Movement in CFR	0	1	2	0	1

1.7 External Debt and Investments

All of the indicators throughout this report assume that debt is raised in each financial year, as the borrowing requirement is incurred. The expected impact of the capital expenditure decisions on the Council's debt and investment position are shown below:

	2004/05 Actual £m	**2005/06 Revised £m**	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
External Debt					
Borrowing	3	3	5	6	8
Other long term liabilities	0	0	0	0	0
Total Debt at 31 March	3	3	5	6	8
Investments					
Investments at 31 March	20	14	12	12	12

The movement of the total investments of £6 million between the 2004/05 actual and the 2005/06 revised estimates reflects the use of investments to finance capital expenditure during 2005/06 and the repayment of temporary borrowing that was outstanding at 31 March 2005.

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 2005/06 plus the estimates of any additional CFR for 2006/07 and the following two years. This allows some flexibility for limited borrowing in advance of the need to spend. This is crucial to effective treasury management as it means that treasury decisions can be made when interest rates are at the most beneficial to the Council.

Net External Borrowing	**2005/06 Comparator £m**	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
Gross Borrowing	3	5	6	8
Investments	14	12	12	12
Net Borrowing	-11	-7	-6	-4
CFR	6	8	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	**2005/06 Revised £m**	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
Borrowing	25	28	30	33
Other long term liabilities	0	0	0	0
Total	25	28	30	33

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.

All of the prudential indicators assume that debt is raised in each of the financial years in which the borrowing requirement arises.

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

Operational boundary for external debt	**2005/06 Revised £m**	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
Borrowing	8	10	11	13
Other long term liabilities	0	0	0	0
Total	8	10	11	13

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. If the Council is debt free the financing costs will be negative for the period shown in this report. 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 be positive within a few years. This is because although the interest paid on borrowing will be offset by interest earned on investments there will be a further charge of a statutory minimum revenue provision (MRP).

The MRP is an amount that is charged to revenue to repay debt in the future. The following table shows the estimated financing costs for the period from 2005/06 to 2008/09.

Financing Costs	2004/05 Actual £000	2005/06 Revised £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000
Interest due for short-term borrowing	26	40	40	40	40
Interest due for long-term debt	0	29	159	237	315
Penalties paid on early repayment of debt	515	416	242	182	156
Interest income	-1522	-1608	-1395	-1152	-1091
Replacement for MRP	167	439	638	1029	1401
Total Financing Costs	-814	-684	-316	336	821

3.2 Ratio of financing costs to net revenue stream

3.2.1 The net revenue stream is the amount of revenue expenditure met from government grant and local tax. This includes savings made from the decision by this council to no longer lease capital assets but to purchase them in the future.

3.2.2 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 Actual	2005/06 Revised	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
Non - HRA	-4%	-4%	-4%	-1%	0%
HRA	0%	0%	0%	0%	0%

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

3.3.1 This table shows how the three-year capital programme recommended in the 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.

3.3.2 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 2006/07	Forward Projection 2007/08	Forward Projection 2008/09
Change to Council Tax-Band D	2.18%	1.68%	1.45%
Change to Council Tax cost year on year	£2.99	£2.35	£2.06

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

3.4.1 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.

3.4.2 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 2006/07	Forward Projection 2007/08	Forward Projection 2008/09
Weekly Housing Rent levels	£0.00	£2.74	£0.00

APPENDIX 2

TREASURY MANAGEMENT STRATEGY 2006/07 – 2008/09

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 prudential indicators in appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy that need approval.

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 3.6.3.
- 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
- The use of money brokers
- Performance indicators
- Local prudential indicators

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.

	2004/05 Actual £m	2005/06 Forecast £m	2006/07 Estimate £m	2007/08 Estimate £m	2008/09 Estimate £m
External Debt					
Borrowing	3	3	5	6	8
Other Long Term Liabilities	0	0	0	0	0
Total Debt at 31 March	3	3	5	6	8
Annual Change in Debt		**0**	**2**	**1**	**2**
Investments					
Investments	-20	-14	-12	-12	-13
Annual change in investm'ts	0	6	2	0	-1
Net Borrowing	**-17**	**-11**	**- 7**	**- 6**	**- 5**

3.2 The Expected Movement In Interest Rates

3.2.1 The Monetary Policy Committee announced the expected cut in base rates to 4.5% following its August meeting. The low point in the current interest rate cycle is estimated at 4.25%.

3.2.2 GDP growth has been weaker than anticipated with the slowdown in house price inflation and higher debt servicing costs combining to undermine consumer spending. Activity is expected to remain weak in the short term but to stage a recovery later in 2006.

3.2.3 The Bank of England believes that the rebound in consumer activity, together with continued strength in public sector spending and a rise in corporate investment will encourage higher growth in the future. This is not certain and forecasting interest rate levels in the current climate is difficult and a cautious approach is needed in treasury activity.

3.2.4 The international economic situation creates further uncertainty in the forecasts. UK longer term interest rates have been influenced by US interest rates, which appear unrealistically low currently, and there continues to be a risk of an upwards movement in rates, the timing of this is difficult to predict.

3.2.5 The expected movement in interest rates are as follows:

Medium-Term Rate Forecasts – Annual Averages %

Year	Base Rate %	5-year Gilt %	20-yr Gilt %
2005/06	4.6	4.3	4.5
2006/07	4.3	4.4	4.6
2007/08	4.5	4.6	4.7
2008/09	4.8	4.8	4.7

3.2.6 There are significant risks to the forecast, which is made estimating positive but low world and UK economic growth. Further weakness in growth could see short and longer-term rates return to historic lows, although there is a possibility within the forecasts that rates will return to a higher level.

3.3 Borrowing And Debt Strategy 2006/07 – 2008/09

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

3.3.2 Long-term fixed interest rates are expected to rise modestly and base rates are expected to fall initially by 0.25% before rising again in 2007/08. It is likely that the most advantageous time to raise long-term loans will be in late 2005/06 or early in 2006/07.

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. This will include borrowing in advance for future years requirements.

3.3.4 The expected borrowing requirement is:

	2005/06 Revised	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
To fund Capital expenditure	1630	1983	1662	2046
Prior years expenditure not yet funded	1123	0	0	0
Total Borrowing Requirement	2753	1983	1662	2046

3.3.5 This table reflects the estimated external debt limits shown at table 3.1 above.

3.4 Investment Strategy 2006/07 – 2008/09

3.4.1 The main principle governing the Council's investment criteria is the security of its investments. However, the amount of interest earned on investments is a key 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 3.6.3.

- That it maintains a policy for the categories of investment it will invest in and for choosing investment 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
Organisations wholly owned by UK Government, e.g. Royal Mail Holdings PLC	£3m for up to 6 months

- 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 as shown at 3.6.3 below.

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 non-specified investment category. These investments will only be used according to the parameters shown at 3.6.3 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 if required new counterparties which meet the criteria will be added to the list.

3.6 Treasury Management Prudential Indicators and Limits on Activity.

3.6.1 There are further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if the limits are set at a level that are too restrictive they will actually reduce opportunities to reduce costs.

3.6.2 The indicators for borrowing are:

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

- Upper limits on variable rate exposure –
  Similar to the previous indicator this covers a maximum limit on variable interest rates. The variable limit is 50% of the total net borrowing to ensure that volatility is contained within the portfolio.

  The following table shows the estimated limits for the net debt position: -

Net Debt Limits	**2006/07 Upper**	**2007/08 Upper**	**2008/09 Upper**
Limits for fixed interest rates based on net debt	100%	100%	100%
Limits for variable interest rates based on net debt	50%	50%	50%

- 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 for fixed interest rates 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 both upper and lower thresholds.

  A variable interest rate limit has been introduced to help identify the risks associated with fixed/variable interest rate borrowing. This is set at 50% to ensure that the volatility of the portfolio is limited.

These limits are shown in the following table:

Borrowing	2006/07 Upper		2007/08 Upper		2008/09 Upper	
Limits - fixed interest rates	100%		100%		100%	
Limits - 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.

- Maximum principal funds invested –
  These limits are set to help identify the total sums available for investment over the year.

- 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. This is the amount of funds that are not needed immediately for revenue or capital purposes and therefore can be invested for longer periods.

- Fixed and variable interest rate investments –
  Limits are included for fixed and variable interest rate investments to contain the volatility of the investments

- Maturity structure of investments –
  These limits are set to indicate the maturity structure of investments and to ensure that Councils with large volumes of investments that are not immediately required for expenditure purposes, and therefore invested for periods longer than 364 days, are invested in a cautious manner. The lower limit is set at 50% for less than 12 months, as a greater proportion of this Council’s funds will not be available for longer-term investment. The upper limits are all set at 100% because only a limited value of funds will fall into this category.

These limits are shown in the following table: -

Investments	2006/07 Upper		2007/08 Upper		2008/09 Upper	
Estimated interest on net investments	£1.196m		£0.875m		£0.736m	
Estimated Maximum sums invested	£38m		£37m		£38m	
Estimated Maximum sums invested for more than 364 days	£6m		£6m		£6m	
Limits - fixed interest rates	100%		100%		100%	
Limits - variable interest rates	50%		50%		50%	
Maturity Structure of investments						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	50%	100%	50%	100%	50%	100%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%

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 USE OF MONEY BROKERS

3.8.1 Generally the Council will use money brokers to place investments with counterparties. The broker has access to the money markets and will be able to determine the best rate of investment for the Council given the counterparties that the Council can invest with and type of investment required.

3.8.2 Several highly rated organisations now conduct their own treasury transactions and no longer use money brokers. If beneficial to the Council, investments may be made by dealing directly with these counterparties.

3.9 PERFORMANCE INDICATORS

3.9.1 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.

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

3.10 LOCAL PRUDENTIAL INDICATORS

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