4. ANNUAL TREASURY STRATEGY 2011/12

4.1 Summary

4.1.1 At the time of writing there is no necessity to seek any new borrowing to fund expenditure on the capital programme for the next three years. Whilst continuing to invest surplus cash reserves in the short term market, some would be used temporarily to cover the required expenditure pending long term funding. The temporary use of cash surpluses, which are currently returning low rates of interest, is more efficient than borrowing at present and reduces counterparty risk in the current market. The opportunity may be taken to replace existing maturing debt if market conditions are favourable.

4.2 Introduction

4.2.1 The strategy takes into account views on interest rates, including market forecasts and the advice of the Council's treasury advisor and covers:-

Item	Reference
Treasury market background and interest rate expectations	Appendix 1
The current portfolio position	Paragraphs 4.4.1 to 4.4.4
The borrowing strategy including the policy on borrowing in advance of need	Paragraphs 4.5.1 to 4.5.8
Prudential Code indicators	Appendix 2
Executing the borrowing policy	Paragraphs 4.5.9 to 4.5.12
Maturing debt and rescheduling	Paragraphs 4.6.1 to 4.6.3
The investment strategy regulatory framework and background	Paragraphs 4.7.1 to 4.7.2
Investment instruments	Paragraphs 4.9.1 to 4.9.4 and Appendices 3 and 4
Creditworthiness policy	Appendix 5
In-house investments and other investment parameters	Paragraphs 4.9.5 to 4.9.12 and Appendix 6
The scheme of delegation	Appendix 7
Member Training	Appendix 7
Use of external service providers	Appendix 7

4.3 Market Background

4.3.1 The strategy takes into account current information on broad economic assumptions. These are likely to vary during the year, but serve as a benchmark to assess whether change in external factors could prompt revision of the policy. An overview of the economy and forecasts for interest rates provided by our advisors Sector Treasury Services in early January 2011 is shown in **Appendix 1**.

BORROWING AND INVESTMENT OVERVIEW

4.4 Current Portfolio Position

4.4.1 The Council's portfolio at 31 December 2010 is shown in the table below. **Borrowing** represents the historic funding of the Council's asset portfolio. The valuation of these assets in current use at 31 March 2010 is £1,450 million. **Investments** mainly relate to reserves and cash surpluses of the Housing Revenue Account and General Fund.

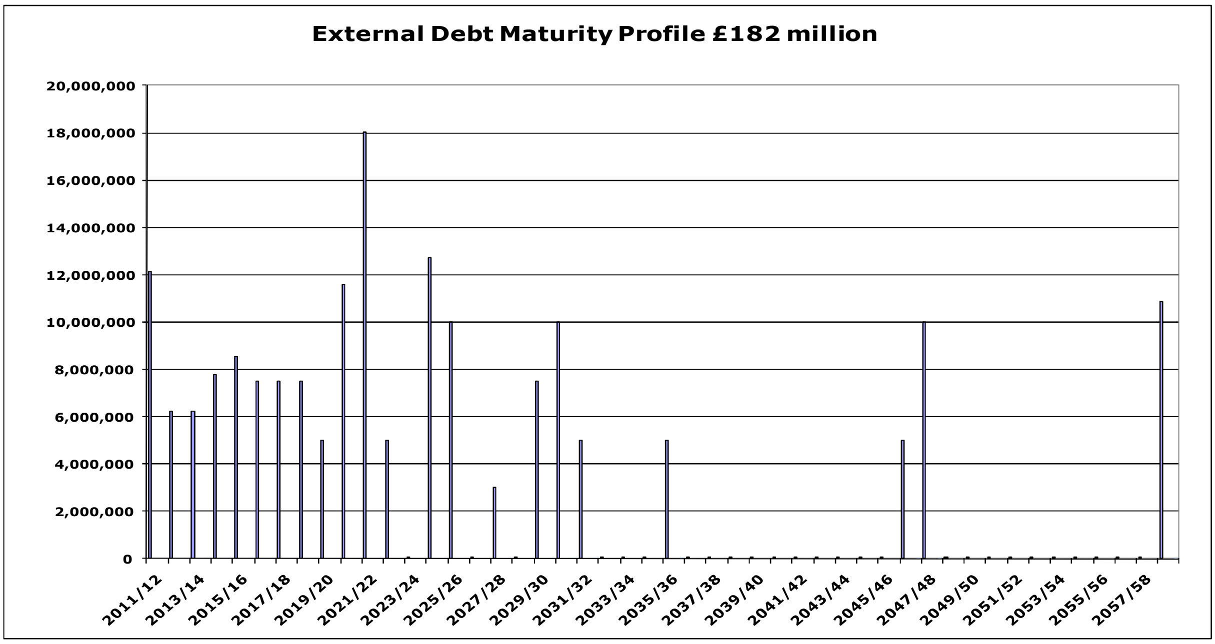
	31 December 2010 Principal £'000	**Annualised Rate/ Return at 31 December 2010**	**Annualised Benchmark at 31 December 2010**
Borrowing			
- PWLB	192,409	7.26%	
Total Debt	**192,409**	**7.26%**	
Investments			
- In House	191,197	0.46%	0.42%
.- Investec	40,257	0.54%	0.42%
Total Investments	**231,454**		

4.4.2 The current operating limits for in-house cash investments allow:-

- up to 50 per cent of the portfolio to be placed with six named financial institutions (HSBC, Barclays, Lloyds, RBS, Santander UK and Nationwide);
- the purchase of gilts on a buy to hold basis with maturity dates of up to two years;
- £40 million is invested via an external cash fund manager; and
- the balance to be deposited with the government Debt Management Office (DMO).

4.4.3 Borrowing is not earmarked to individual capital schemes, but the interest on external borrowing is apportioned between the General Fund and Housing Revenue Account (HRA), with 86 per cent of the total charge falling to the HRA. Conversely the General Fund receives approximately 90 per cent of the income with the HRA receiving 6 per cent and other funds currently receiving about 4 per cent.

4.4.4 The maturity profile of the Council's borrowing is shown in the graph below:



4.5 BORROWING STRATEGY

Borrowing requirement

4.5.1 The Council's need to borrow is driven by:

- the present financing needs of the three year capital programme;
- the amount of external debt that will mature and need refinancing; and
- any day to day temporary borrowing for short term cash flow purposes.

4.5.2 The issues which have been taken into account in determining the borrowing strategy are:

- the Capital Programme 2011/12 – 2013/14 to be proposed to Council;
- the current level of external debt compared to the Council's Capital Financing Requirement;
- interest rate risks including the balance between variable and fixed rates;

- the desirability of a smooth debt maturity profile, to limit exposure to adverse interest rates in any one period; and
- the potential restructuring of Housing Revenue Account (HRA) debt between Councils being proposed by the Government for the future.

4.5.3 The Council seeks to manage its risks by setting limits around treasury management activity. These limits are set out in **Appendix 2**.

4.5.4 It is unlikely that new borrowing will be taken in 2011/12, as the next financial year is expected to be one of continued low Bank Rate, long term borrowing rates are expected to be significantly higher than rates on the loss of investment income and the cash holdings at the present time are sufficient for the Council to avoid being forced into additional external long term borrowing for the next three years. The reduction in investments also has the benefit of reducing exposure to interest rate and counterparty credit risk.

4.5.5 The Prudential Code allows the Council to choose its own timing for borrowing externally. However the Treasury also decide annually whether to set a national limit on prudential borrowing for macroeconomic reasons. To date the Treasury have not used these powers. The public sector environment is forecast to become tighter, and there is increasing take up nationally of prudential borrowing. It may therefore be prudent for the Council to continue to monitor the position using both internal and external funding as market circumstances favour.

4.5.6 The opportunity may be taken to replace existing maturing debt if market conditions are favourable; £22.2 million (including £10 million due to be repaid in March 2011) matures by the end of 2011/12 and a further £12.5 million by March 2014.

Policy on borrowing in advance of need

4.5.7 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. The Council will only borrow in advance in respect of its forecast capital financing requirement in the current financial year and the following two financial years.

4.5.8 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; and
- consider the impact of borrowing in advance on temporarily increasing investment cash balances (until required to finance capital expenditure) 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.

Executing the borrowing strategy

4.5.9 The Council's gross and net debt position is forecast to be as follows:

£'000

	2010/11	2011/12	2012/13	2013/14
Actual external debt (gross)	182,346	170,198	163,973	115,741
Cash Balances	155,000	123,011	98,747	78,734
Net Debt	27,260	47,187	65,226	79,007

4.5.10 Over the next three years our advisors forecast that investment rates are expected to be below long term borrowing rates and so this 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 would maximise short term savings. However avoiding new long term external borrowing in 2011/12 must be weighed against the potential for incurring additional long term extra interest costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

External Borrowing strategy

4.5.11 With cash balances currently high, the Council will not be *forced* into external borrowing to fund capital spending. However we will take opportunities to secure long term finance for our long-term assets and maturing debt if excellent market opportunities present themselves. With 25 year PWLB forecast to be around 5.3 per cent, it is likely that we would regard 4.75 per cent as a trigger for opportunities. Variable rates carry greater budgetary risks than secure longer term fixed rates if these are available at low levels. However variable rate borrowing could reduce our overall exposure to interest rate fluctuations on investments. As rate prospects are updated over the year we will adjust our assessment of good value

4.5.12 The main sensitivities of the forecast are likely to be the two scenarios below. We will monitor both prevailing interest rates and the market forecasts, adopting the following responses to a change of view:

- If we expected borrowing rates to rise sharply, for example due to a sudden increase in inflation risks, we would have the option of borrowing before it became more expensive, or of sitting out the upswing. Given our current levels of investments it is more likely that we would use internal cash to meet spending requirements than increase our borrowing. However if the rate rise looked to be a long term structural shift we would draw further fixed rate funding while rates were still cheap.

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, for example due to a relapse into recession or the risk of deflation, then long term borrowing will be deferred. Rescheduling from fixed rate funding into variable or short rate funding will be considered.

4.6 Maturing Debt and Rescheduling

4.6.1 The Council's average borrowing rate on its legacy debt is 7.26 per cent as at 31 December 2010. This average rate falls when new debt is taken at lower rates and existing debt matures; £12.1 million of debt will mature in 2011/12 and £24.6 million in total during 2011/12 to 2013/14, with an average interest rate of 9.19 per cent. The historic rate is higher than current market rates: however the Council cannot repay debt early without paying a premium to compensate the PWLB for higher interest payments forgone. Different PWLB rates for new borrowing as opposed to early repayment of debt introduced in November 2007 have been compounded by the introduction of higher borrowing rates in October 2010 so debt restructuring is not currently attractive.

4.6.2 The benefit to the local taxpayer is also reduced because the Government subsidises interest charges on debt apportioned to the HRA (approximately 80 per cent of the total) see paragraph

3.3 above. Savings on debt are therefore offset by losses of subsidy.

Policy on debt restructuring

4.6.3 The Council will restructure its debt only if there is a genuine economic benefit to the Council and its taxpayers.

ANNUAL INVESTMENT STRATEGY

4.7 The Regulatory Framework

4.7.1 The Investment Strategy must have regard to the Department for Communities and Local Government (CLG) Guidance on Local Government Investment ("the Guidance") issued in March 2010 in accordance with the Local Government Act 2003.

4.7.2 The Act allows Councils to exercise a broader risk assessment, within the same overall objectives of security, liquidity and yield. The Guidance also states that borrowing purely to invest or on-lend and make a return is speculative and the Royal Borough will not engage in such activity.

Investment Objectives

4.7.3 The Council's priorities are to achieve the optimum returns on investments subject to a very high level of security of capital and a level of liquidity in its investments, appropriate to the Council's projected need for funds over time. The risk appetite of this Council is very low in order to give priority to the security of its investments.

4.8 Investment Background

4.8.1 At 31 December 2010, the Council's cash investments were £231.5 million. Following the decision in March 2009 to place all funds with the Debt Management Office (DMO) the internal operational guidelines, within the overall approved strategy, have been reconsidered on a regular basis. The current operating limits allow up to 50 per cent of the Council's funds to be placed with six named UK financial institutions (HSBC, Barclays, Lloyds, RBS, Santander UK and Nationwide) for up to twelve months duration; in addition some funds are placed with an external cash fund manager. The Council has purchased, on a 'buy to hold' basis, Government securities maturing in June

2012. Currently 31 per cent of funds are held with the DMO, 43 per cent in the named banks and 26 per cent in government securities. These figures include the external fund manager's holdings which total £40.3 million (17 per cent of the portfolio).

4.8.2 Future investment income is affected by the level of short and long term interest rates. Bank Rate has been unchanged at 0.5 per cent since March 2009 and is expected to remain at this level until the fourth quarter of 2011 when it is expected to rise steadily. Bank Rate forecasts provided by our Advisor for the financial year ends are as follows:

2011	0.5 per cent
2012	1.0 per cent
2013	2.25 per cent
2014	3.25 per cent

There is a downside risk to these forecasts if economic growth is weaker than expected. There is also a risk that the MPC could decide to start raising Bank Rate in the earlier than expected to contain the level of inflation.

Investment Strategy

4.8.3 The proposed strategy is to:

- diversify investment instruments where possible with minimum dilution of creditworthiness including making use of external cash managers
- keep using short dated investments while present market conditions prevail
- use longer term investment instruments only where they are tradable both in house and via external managers.

4.9 Investment Strategy Execution

Investment Instruments

4.9.1 Councils are allowed to invest in a wide range of instruments and there is a complex framework to regulate decisions on the amount of risk that a council decides to take. CLG guidance categorises investments between 'specified' and 'non-specified':

4.9.2 The investment instruments proposed for use in 2011/12 are listed in **Appendix 3 and 4.** It is proposed to allow the external fund managers to continue to hold 100% of their portfolio in gilts (short and long term) with a maximum maturity of up to 5 years. However the average duration of funds held remains at three years. Because these are held in pooled funds by the managers they can be regarded as liquid assets.

4.9.3 A maximum of 50 per cent will be held in aggregate in non-specified investments.

4.9.4 In accordance with the Treasury Management Practices – Schedules (formulated in compliance with the CIPFA Code of Practice) the Executive Director for Finance, Information Systems and Property, in consultation with the Cabinet Member for Finance and IT, is responsible for constructing a lending list comprising type, sector and specific counterparty limits.

In-house investments

4.9.5 Given the continued uncertainty in the financial markets, despite the improvements noted since the banking crisis of 2008 and 2009, continued attention has been given to the Council's investment strategy for its **in-house cash management**. It would not necessarily be fully implemented until complete confidence in the markets has been restored to former levels. Until that time tighter constraints than the Investment Strategy would allow may be used to govern investment policy.

Counterparty limits – proposed revision

4.9.6 Details of the allocation of funds to counterparties are shown in **Appendix 6**. The limit for the total that can be deposited with other local authorities has been increased to **30 per cent** of the total portfolio, with a maximum of **£10 million** deposited with any one authority subject to any limitations as referred to in the Appendix. Other limits have remained unchanged. Further constraints can be placed on the use of counterparties at any time.

4.9.7 The **upper limit for in-house investment of long term illiquid assets is nil** i.e. investments will be for periods of no longer than 364 days for instruments that are not readily tradable, utilising the current lending list.

Other Investment Parameters

4.9.8 External managers can hold £80 million of core funds, plus reinvested returns, to add diversification to the portfolio. They are permitted to invest up to 50 per cent in approved non-specified investments. They will not be allowed to hold illiquid long term investments without prior approval. The balance of the core funds are to be managed in house as outlined in 4.9.5 - 4.9.7 above.

4.9.9 External fund managers will continue to capitalise the income received thus increasing the amount held by these sums each year. The amount invested by external managers, and their performance, will be kept under review during the year.

4.9.10 An external fund manager will provide a custody service for any tradable instruments the Council chooses to purchase on a 'buy to hold' strategy. The amounts held in the custody account will be constrained by the criteria outlined in this report and do not form part of the cash allocated to the manager for active management. The manager will offer no advice on which instruments the Council should purchase but will undertake an execution and custody service only for these investments.

4.9.11 The Council's external fund managers must comply with this Annual Investment Strategy. The agreement between the Council and the fund managers additionally stipulates guidelines and duration and other limits in order to contain and control risk.

4.9.12 It is not proposed to use either corporate bonds or property for investment. Both of these increase risk to the capital sum and property in particular is illiquid. This could be significant if interest rate structures meant that the Council wished to avoid external borrowing and therefore to utilise its cash balances, particularly if this coincided with a period of drawing down reserves. These instruments must be treated as capital expenditure and are therefore less flexible as a treasury management tool. This does not prevent the Council purchasing property for operational or economic development/regeneration purposes *as part of its capital programme*.

4.10 Governance Arrangements

4.10.1 The Council's arrangements for the governance and control of the Treasury Management function are set out in **Appendix 7**.

4.11 Financial, Legal Personnel and/or Equality Implications

4.11.1 The Local Government Act 2003 requires the Royal Borough to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Royal Borough's capital investment plans are affordable, prudent and sustainable. These are contained in the report on the Capital Programme 2011/12-2013/14 elsewhere on the Council agenda.

4.11.2 The Act requires the Royal Borough to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Royal Borough's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Annual Investment Strategy must have regard to guidance issued by the CLG and must be agreed by the full Council.

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

4.12 Recommendation

The Council is recommended to **approve** the Annual Treasury Strategy, incorporating the Annual Investment Strategy for 2011/12. This includes:

a) the proposed Prudential Indicators which limit treasury management activity as set out in **Appendix 2** of the report.

b) the proposed use of investment instruments as set out in section 4.9.

c) the use of specified and non-specified investments as set out in **Appendices 3 and 4** as qualified by **Appendix 6**

d) the governance arrangements as set out in **Appendix 7**

Nicholas Holgate
Executive Director for Finance, Information Systems and Property

Background papers: CIPFA Code of Practice on Treasury Management for the Public Sector
CLG Guidance on Local Government Investments
Further background statistics on Treasury Management are included in section C of "Vital Finances" on the Council's Web site.

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APPENDIX 1

MARKET BACKGROUND AND INTEREST RATE EXPECTATIONS[1]

1 Economic Background

1.1 There was a sovereign debt crisis in May 2010 prompted, in the first place, by major 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 crisis culminated in the European Union (EU) and the International Monetary Fund (IMF) putting together a €750 billion support package in mid May.

1.2 A second crisis in November, this time over Ireland, culminated in Ireland having to take funding of €85 billion. At the time of writing (early January 2011) there is concern that Portugal may also shortly need support. That could lead to concerns as to whether the current size of the EU/IMF facility would be big enough to cover any crisis that may occur regarding Spanish Government debt.

1.3 The unexpectedly high rate of growth in the second and third quarters of 2010 in the UK and in quarter two in the Euro zone 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 repeated; general expectations are for slow growth in 2011 in the western world.

1.4 Following the general election in May 2010, the coalition government has put in place a plan to reduce the public sector deficit over the next five years. One result of fiscal contraction will be job losses, in particular in public sector services. This may have an effect on consumer and business confidence; house prices started on a generally negative trend from mid 2010. Mortgage approvals are also at very weak levels, all of which indicates that the housing market is likely to be weak in 2011.

1.5 Growth in Gross Domestic Product (GDP) is likely to have peaked in the current period of recovery at 1.2 per cent in the second quarter of 2010. Growth in quarter three was 0.7 per cent . The outlook is for slow growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5 per cent), above what most forecasters currently expect.

[1] Source – Sector Treasury Services 6 January 2011

1.6 The trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which may be the start of a new trend.

1.7 The Consumer Prices Index (CPI) has remained high during 2010, peaking at 3.7 per cent in April and then gradually declining to 3.1 per cent in September (with the Retail Prices Index (RPI) at 4.6 per cent). However the outlook is for increases which could reach as much as 4 per cent in early 2011 before starting to subside again. Although inflation has remained above the Monetary Policy Committee's (MPC) 2 per cent target, the MPC is confident that inflation will fall back under the target over the next two years after another rise to about 3.5 per cent by the end of 2011.

1.8 The Bank of England finished its programme of quantitative easing (QE) with a total of £200 billion in November 2009. However, expectations that there could be a second round of QE in late 2010 or early 2011, to help support economic growth, have faded after the third quarter growth figure of 0.7 per cent and the revising the higher forecast for short term inflation in the November Inflation Report .

1.9 Our Advisors believe that it is unlikely that there will be an increase in Bank Rate until the end of 2011. However, whilst the Bank of England has predicted inflation returning to lower levels for the past two years, CPI (the recognised measure for inflation) has remained over the target set by the Government. The Council is aware of this and the potential effect it may have on the timing of future interest rate increases.

1.10 Prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, the UK's AAA sovereign rating was at significant risk of being downgraded. Sterling was also under 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 European Union government debt during mid 2010.

1.11 It is difficult to gauge how strong UK economic growth is likely to be during 2011/12, and there are a range of views in the market, reflecting the difficulties of forecasting :

- the strength/weakness of economic growth in our major trading partners – the United States and European Union;
- the danger of currency wars and resort to protectionism and tariff barriers if China does not adequately address the issue of its trade surplus due to its undervalued currency;

- 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 the UK;
- the speed of recovery of banks' profitability and balance sheets and the consequent implications for the availability of credit to borrowers;
- the potential for a major European Union sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy; and
- political risks in the Middle East and Korea.

1.12 The overall balance of risks is weighted to the downside and there is some residual risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

2 Interest Rate Forecast

2.1 Expectations are that Bank Rate will be held at 0.5 per cent until the fourth quarter of 2011. It is then forecast to rise steadily reaching 3.25 per cent by the end of 2014.

2.1 The Public Works Loan Board (PWLB) originated in 1793 and became permanently established in 1817. Its function is to consider loan applications for capital purposes from local authorities and other prescribed bodies. It is the primary source of capital funding for local government, interest rates are set by the Treasury and are based on Government borrowing rates which have generally been lower than market rates.

2.2 On 20 October 2010, the Treasury caused the PWLB to raise all interest rates by increasing the margin over gilt yields for all maturity periods to 1 per cent. Prior to this, the margin was generally about 15 basis points (bps) for most periods except the very long term where the margin was about 25 bps. This has made PWLB borrowing more expensive. Expectations are that PWLB rates will rise gradually during the year with both the 50 and 25 year rates peaking at 5.3 per cent by the financial year end

2.3 The Council is not confined to borrowing from the PWLB. However the PWLB offers long term fixed rates based on central Government borrowing powers which can meet the Council's long term asset financing requirement with certainty for its budget. Alternatively the Council could take long term fixed rate market loans (LOBOs) which may be at lower rates than those offered by the PWLB for equivalent maturity periods. As the lender has the option to vary the interest rate after a set period of time and at regular intervals thereafter at which point the borrower has the option to repay the loan this could lead to the Council having to borrow during a period of high interest rates in the future and gives a level of uncertainty to the budget.

2.4 Tables 1 to 4 below show a number of current market forecasts. The first three are individual forecasts including those of the Council's treasury advisor, 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.

Table 1: Sector Treasury Services interest rate forecast 5 January 2011

	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%
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%

In addition Sector is forecasting three month LIBID to be at the following levels at the financial year ends:

2011	0.60 per cent
2012	1.25 per cent
2013	2.50 per cent
2014	3.50 per cent

Table 2: UBS Economic interest rate forecast (for quarter ends) – 6 January 2011

	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%

Table 3: Capital Economics interest rate forecast – 11 January 2011

	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	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%					
10yr PWLB rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%					
25yr PWLB rate	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%					
50yr PWLB rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%					

In table 4 below, the current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 independent forecasts in the last quarterly compilation in November 2010.

Table 4: HM Treasury and independent forecasts, December 2010

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

APPENDIX 2

PRUDENTIAL CODE LIMITS

1 The Prudential Code on borrowing identifies the measures that local authorities should address as a framework for risk management. The proposed parameters for the Council are set out in Tables 1–4 below. Within these limits the Council will also take into account market circumstances in timing its external borrowing.

2 The Capital Financing Requirement (CFR), as defined in the Prudential Code, is a key measure of the local authority's underlying need to borrow for capital expenditure or to finance its other long-term liabilities for the General Fund and HRA. The Council can fund this requirement either by borrowing in the market or by using its internal cash balances to finance its long-term capital financing requirements until market conditions are more favourable.

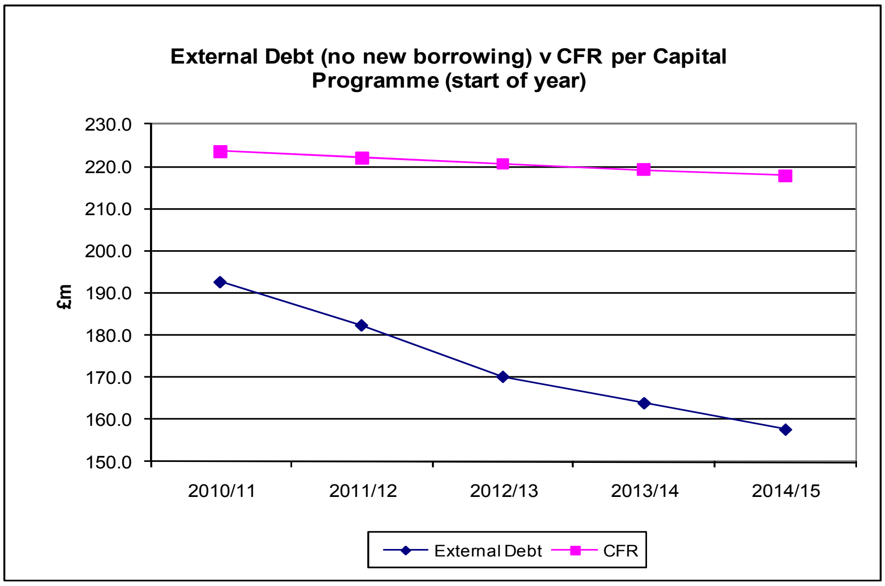
3 The report on the Capital Programme 2011/12–2013/14, elsewhere on the agenda, shows[1] that the Council's estimated CFR for the HRA is expected to remain stable over the next three years, principally as a result of the withdrawal of supported borrowing. General Fund spending over the next three years can be funded from external contributions and internal reserves; annual revenue provision for the repayment of General Fund borrowing will *reduce* its CFR over the period. The forecast total CFR shown in table 5 represents the Royal Borough's cumulative long term borrowing requirement (including that brought forward from previous years).

Table 1: Forecast Capital Financing Requirement £'000

Capital Financing Requirement (as at 31 March)	2010/11	2011/12	2012/13	2013/14
General Fund	36,758	35,397	33,981	32,622
HRA	185,204	185,204	185,204	185,204
Total	**222,076**	**220,608**	**219,185**	**217,826**

4 The chart below shows that external debt will fall, as existing borrowing matures and is repaid. Whilst the CFR is also falling, as revenue provisions reduce the funding requirement, this is at a slower rate. The widening gap of £40-60 million over the next three years indicates the level of potential new external borrowing that might be required in future, depending on the Council's cash surpluses and market conditions.

[1] See Capital Programme Report – Appendix 7 table 17



5 Maximum borrowing limits (known as the Authorised Limit) are **proposed** in Table 2. This is the highest amount the Council will allow. It takes into account the potential capital programme financing requirement, the potential maximum requirement for temporary borrowing and the amount that could be needed to refinance maturing debt. It allows for the possibility of borrowing in advance against the needs of the future two years of the capital programme i.e. to 2013/14 and funding the existing borrowing gap referred to in paragraph 4.8. The borrowing limits are also required to allow for any new credit arrangements (e.g. finance leases) entered into. The limit is set on a rolling basis for three years ahead.

6 In practice the maximum limit is unlikely to be required. The 'Operational Boundary' also **proposed** in Table 2 is the expected normal upper requirement, were we to fund the capital programme in this way. Borrowing in practice will also be monitored and reported against this limit. The estimates for actual external debt are also shown in the table

Table 2: Borrowing Limits

£'000

Authorised limit for external debt	2010/11	2011/12	2012/13	2013/14
Borrowing	285,895	276,973	261,311	242,802
Other long term liabilities	1,000	1,000	1,000	1,000
Total	286,895	277,973	262,311	243,802
Operational boundary				
Borrowing	218,154	216,826	215,521	214,216
Other long term liabilities	1,000	1,000	1,000	1,000
Total	219,154	217,826	216,521	215,216

Actual external debt	182,346	170,198	163,973	157,741

7 Table 3 shows the upper limits which are **proposed** on the Council's interest rate exposure. This means we intend to hold at least half of our total projected debt requirements (Table 1) at fixed interest rates to give stability to the budget.

Table 3: Proposed interest rate exposure

£'000

Interest rate exposure limits	2010/11	2011/12	2012/13	2013/14
Fixed interest upper limit	222,000	220,600	220,600	220,600
Variable rate interest upper limit	111,000	110,300	110,300	110,300

8 Table 4 **proposes** limits for the structure of debt maturities, to ensure that this is reasonably spread out. If large amounts of debt fall due, it could be expensive to replace in times of high interest rates.

Table 4: Proposed structure of debt maturities

Maturity structure of fixed rate borrowing during 2011/12	Lower limit	Upper limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	5%	20%
5 years and within 10 years	10%	50%
10 years and above	30%	85%
Limit of maturity in any one year	0%	10%

APPENDIX 3

SPECIFIED INVESTMENTS

These are investments offering high security and high liquidity e.g. UK Government, local authorities and other counterparties with high credit ratings. All such investments must have a maturity of no more than one year. Authorities will be able to invest with these counterparties with minimal formalities

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure ?	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	No	In-house and by external fund managers	1 year *
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although most LAs not credit rated.	No	In-house	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes-varied Sovereign credit rating of AA+ Banks and building societies with a long term credit rating of A, a short term credit rating of F1 and a support rating of 3.	No	In-house and by external fund managers	1 year
Term deposits with credit-rated deposit takers (banks and building societies), fully nationalised by high credit rated countries	No	Yes	Yes-varied Sovereign credit rating of AAA	No	In-house and by external fund managers	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure ?	Circumstance of use	Maximum period
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies): up to 1 year.	No	Yes	Yes-varied Sovereign credit rating of AA+ Banks and building societies with a long term credit rating of A, a short term credit rating of F1 and a support rating of 3.	No	(1) Buy and hold to maturity : to be used in-house after consultation with treasury advisor (2) For trading : by external cash fund managers only subject to the guidelines and parameters agreed with them	1 year
Gilts : up to 1 year	No	Yes	Govt-backed	No	(1) Buy and hold to maturity : to be used in-house after consultation with treasury advisor (2) For trading : by external cash fund managers only subject to the guidelines and parameters agreed with them	1 year
Money Market Funds	No	Yes	Yes Long term credit rating AAA Volatility rating MR1+	No	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	Yes-varied Sovereign credit rating of AA+ Banks and building societies with a long term credit rating of A, a short term credit	No	In-house	1 year in aggregate

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure ?	Circumstance of use	Maximum period
			rating of F1 and a support rating of 3			
Gilt Funds and other Bond Funds (dependent on set-up structure)	No	Yes	Yes Long term rating of AA-	No	By external fund managers subject to the guidelines and parameters agreed with them. **In the selection of a fund the manager will ensure that the fund is not a body corporate by virtue of its set up structure**	These are open-end mutual funds investing predominately in UK govt gilts and corporate bonds. These funds do not have any maturity date. The fund would hold highly liquid instruments and investments can be sold at any time
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*]	No	Yes	Govt-backed	No	In-house and external fund managers subject to the guidelines and parameters agreed with them	1 year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities under 12 months e.g. Guaranteed Export Finance Corporation	Yes	Yes	AAA / Govt-backed	No	For trading by external fund managers subject to the guidelines and parameters agreed with them	1 year
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities under 12	Yes	Yes	AAA	No	(1) Buy and hold to maturity : to be used in-house after	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure ?	Circumstance of use	Maximum period
months					consultation with treasury advisors (2)For trading : by external cash fund managers only, subject to the guidelines and parameters agreed with them	

Monitoring of credit ratings:

All credit ratings will be monitored weekly. If a counterparty is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty will be withdrawn.

Any counterparty placed on negative rating watch and currently near the floor of the minimum acceptable rating will be suspended awaiting the outcome of the rating review.

Any intra-month credit rating downgrade that the Council identifies will be similarly dealt with.

NON-SPECIFIED INVESTMENTS

These are any investments that are not classified as specified (e.g. investments of over one year's duration). A local authority must identify the general categories of acceptable non-specified investments, the limit to the overall amount that may be held and the guidelines for use of such investments. Some non-specified investments count as capital expenditure, e g. investments in bonds or shares. When these are liquidated the income counts as a capital receipt and cannot therefore be used to pay for revenue spending. Using these investments therefore makes fully flexible revenue cash into less flexible capital cash.

Limits shown below are subject to any further restrictions on counterparties, geographical location and duration shown elsewhere in this report

All investments listed below must be sterling-denominated.

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Exp?	Circumstance of use	Max amount as part of overall investments	Maximum maturity of invest-ment
Term deposits with UK Government or UK Local Authorities with maturities greater than 1 year	(A) (i) Excellent credit quality. (ii) Certainty of rate of return over period invested (iii) No movement in capital value of deposit despite changes in interest rate environment (iv) No currency risk (B) (i) Illiquid: as a general rule, cannot be traded or repaid prior to maturity (ii) Return will be lower if interest rates rise after making the investment	No	No	High security although most Local Authorities are not credit rated	**No**	In- house	NIL	N/A
Term Deposits with credit rated deposit	(A) (i) Certainty of rate of return over period invested	No	No	Yes – varied Sovereign	**No**	In-house	NIL	N/A

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Exp?	Circumstance of use	Max amount as part of overall investments	Maximum maturity of invest-ment
takers (banks and building societies) with maturities greater than 1 year	(ii) No movement in capital value of deposit despite changes in interest rate environment (B) (i) Illiquid: as a general rule, cannot be traded or repaid prior to maturity (ii) Return will be lower if interest rates rise after making the investment (iii) Credit risk: potential for greater deterioration in credit quality over longer period			credit rating of AAA Banks and building societies with a long term credit rating of AA, a short term credit rating of F1 and a support rating of 2				
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (I) Although in theory tradable, are relatively illiquid. (B) (I) Market or interest rate risk: yield subject to movement during life of CD which could negatively impact on price of the CD	No	Yes	Yes – varied Sovereign credit rating of AAA Banks and building societies with a long term credit rating of AA-, a short term credit rating of F1+ and a support rating of 2	**No**	To be used by external fund managers subject to the guidelines and parameters agreed with them	NIL	5 years
UK government gilts with maturities in excess of 1 year	(A) (i) Excellent credit quality. (ii) Very liquid (iii) If held to maturity, known rate of return per annum which aids forward planning (iv) If traded, potential for capital gain through appreciation in value. (v) No currency risk (B) (i) Market or interest rate risk: Yield subject to movement during the life of the gilt which could negatively	No	Yes	Government backed	**No**	(1) Buy and hold to maturity: To be used in-house after consultation with treasury advisors (2)For trading : by external cash fund managers only, subject to the guidelines	50% of invested securities 100% of	2 years 5 years (max 3 yrs average)

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Exp?	Circumstance of use	Max amount as part of overall investments	Maximum maturity of invest-ment
	impact on the price of the bond i.e. potential for capital loss					and parameters agreed with them	invested securities	
Sovereign issues Non UK government gilts	(A) (i) Excellent credit quality (ii) Liquid (iii)If held to maturity, known yield per annum – aids forward planning (iv) If traded, potential for capital gain through appreciation in value (v) No currency risk (B) (i) Market or interest rate risk: yield subject to movement during life of sovereign bond which could negatively impact on price of the bond	No	Yes	AAA	**No**	(1) Buy and hold to maturity : to be used in-house after consultation with treasury advisors (2)For trading : by external cash fund managers only, subject to the guidelines and parameters agreed with them	NIL NIL	
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested – aids forward planning (B) (i) Credit risk is over the whole period, not just when monies are actually invested (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period	No	No	Yes – varied Sovereign credit rating of AAA Banks and building societies with a long term credit rating of AA, a short term rating of F1+ and a support rating of 2	**No**	To be used in-house after consultation with treasury advisor	NIL	
Deposits with unrated deposit takers with unconditional financial guarantee from HMG or credit-rated parent institution : any	Credit standing of parent will determine ultimate extent of credit risk	No	Yes	Not rated in their own right, but parent must be rated with a long term rating of AA-, a short term rating of F1 and a	**No**	In-house	NIL	

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Exp?	Circumstance of use	Max amount as part of overall investments	Maximum maturity of invest-ment
maturity				support rating of 2				
Unrated deposit takers (building societies) which do not have an unconditional guarantee	(A) (i) Good standing in the London money market (ii) Potential for more competitive rates offered to local authorities (iii) Due to the nature of Building Society finance credit rating is not always necessary. (iv) Building Societies are regulated by the FSA (B) Credit quality unknown	No	Yes	Total assets must be in excess of £3bn Account will be taken of the liquidity, wholesale funding and lending ratios	**No**	In-house	£20m	1 year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities in excess of 1 year	(A) (i) excellent credit quality (ii) Relatively liquid (although not as liquid as gilts (iii) If held to maturity, known yield per annum,– aids forward planning (iv) Enhanced return compared to gilts (iv) If traded, potential for capital gain through appreciation in value (B) (i) Market or interest rate risk: yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread verses gilt could widen	Yes	Yes	AAA / government guaranteed	**No**	For trading : by external cash fund managers only, subject to the guidelines and parameters agreed with them	NIL	
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year	(A) (I) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity)	Yes	Yes	AAA or government guaranteed	**No**	(1) Buy and hold to maturity : to be used in-house after consultation with treasury advisors (2)For trading : by external cash fund managers only, subject to the guidelines and parameters	NIL 10% of total invested securities	 5 years (max 3 yrs average)

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating**	**Capital Exp?**	**Circumstance of use**	**Max amount as part of overall investments**	**Maximum maturity of invest-ment**
	(B) (i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen					agreed with them		

APPENDIX 5

CREDITWORTHINESS POLICY

1 As a starting point to derive its credit criteria, the Royal Borough will make use of Fitch, Moodys and Standard and Poors ratings. All credit ratings are formally monitored weekly; however notification is received from the treasury advisor of any changes in credit ratings as they occur. If a downgrade results in the counterparty no longer meeting the Royal Borough's minimum criteria, its further use for new investment will be withdrawn immediately. If an institution is placed on a negative rating watch (i.e. there is a reasonable probability of a rating change in the short term and the likelihood of that change being negative) and is currently near the floor of the minimum acceptable rating for placing investments with that body its further use will be suspended until the credit rating is confirmed.

2 In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swaps (CDS) against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the suspension or removal of an institution from the Council's lending list.

3 Consideration will also be given to the creditworthiness service provided by the Council's treasury advisor. This uses a modelling approach combining credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system. Counterparties are placed in a series of colour bands which indicate their relative creditworthiness and suggested maximum duration for investments.

4 The Council will not use the approach suggested by CIPFA of using the lowest rating from the rating agencies to determine creditworthy counterparties as there is no evidence that whichever agency is currently setting the lowest rating is right. By using a weighted scoring system the advisor's creditworthiness service does not give undue preponderance to just one agency's ratings.

5 In addition we will use market data and information including from quality financial press, information on government support for banks and the credit ratings of that government support.

6 The Sovereign credit rating of individual countries will continue to be taken into account prior to considering the ratings of individual institutions to be included on the counterparty list. Only institutions from countries with a minimum sovereign rating of AA+ from Fitch Ratings will be considered. The list of countries that currently qualify using this credit criteria are shown in **Appendix 6**. This list will be

added to or deducted from by the Executive Director for Finance, Information Systems and Property in consultation with the Cabinet Member for Property and Finance. A limit will be placed on the total amount that can be deposited with institutions in any one country outside the United Kingdom.

7 Unlike the Royal Borough the majority of Local Authorities are not independently credit rated though they are considered to offer very high security and liquidity. Nevertheless the Council will operate its own rating methodology for determining the authorities to which it will lend.

APPENDIX 6

COUNTERPARTY CRITERIA
INTERNALLY AND EXTERNALLY MANAGED FUNDS

The following criteria and limits will be used when constructing the Council's lending list, in addition to the limits set out for specified and non-specified investments in Appendices 3 and 4:

a) Deposits with the Debt Management Office (DMO) b) Gilts with a duration of less than 1 year c) Treasury Bills	Maximum 100% of the total portfolio
d) Deposits with other Local Authorities	Maximum 30% of the total portfolio with a maximum of £10 million to any one authority meeting the Council's LA lending criteria

e) A minimum **Sovereign rating** of AA+ must be in place before the criteria are applied to individual institutions.

f) The Council will not place deposits with any institution with a long-term credit rating below A. Further restraints are placed on the limit with any one institution based on the short-term and support ratings. Support ratings are allocated by Fitch on a sliding scale of 1 – 5 depending on their assessment of whether a bank would receive support in the event of difficulties.

Long-term	Short-term	Support	Maximum Limit £m
AAA	F1+	1	50
AA+	F1+	1	50
AA	F1+	1 or 2	25
AA-	F1+	1, 2 or 3	25
A+/A	F1	1 or 2	15
A+/A	F1	3	10

g) No differentiation is made between UK and overseas banks. However a limit will be placed on the total amount that can be deposited with all counterparties in any one country outside the United Kingdom as follows:

Sovereign Rating

AAA	Maximum 15% of the total portfolio
AA+	Maximum 10% of the total portfolio

h) Wholly owned subsidiaries of UK clearing banks would have half of the limit allocated to the parent bank. Lending to the group will not exceed the total limit allocated to the parent bank.

i) Limits for non-rated building societies with total assets in excess of £3bn and which meet the required ratios (as calculated from the latest available financial statements) will have limits as shown below:

Total Assets	Liquidity Ratio (1)	Funding Ratio (2)	Lending Ratio (3)	Limit £m
Over £10bn	>150%	>30%	>10%	20
	<150%	<30%	<10%	15
Over £5bn	>150%	>30%	>10%	15
	<150%	<30%	<10%	10
Over £3bn	>150%	>30%	>10%	10
	<150%	<30%	<10%	5

Notes

(1) Liquidity Ratio – calculated as the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities as a percentage of amounts owed to credit institutions and other customers

(2) Funding Ratio – the percentage of shares and borrowings not in the form of shares held by individuals

(3) Lending Ratio – the percentage of business assets not in the form of loans fully secured on residential property

APPENDIX 7

GOVERNANCE ARRANGEMENTS

1 Scheme of delegation

1.1 This strategy statement has been prepared in accordance with the 2009 Code. Accordingly, the Council's Treasury Management Strategy will be approved by the full council and there will also be a midyear report. In addition there will be monitoring reports and regular review by councillors in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 The areas of responsibility of the various Committees and Officers in relation to treasury management activities are set out in the table below:

Area of Responsibility	Council/Committee /Officer	Frequency
Treasury Management Policy Statement (revised)	Full Council	Initial Adoption in 2010
Annual Treasury Strategy	Full Council	Annually before the start of the year
Annual Treasury Strategy – midyear report	Full Council	Mid Year
Annual Treasury Strategy – Updates or revisions	Full Council	As and when required
Annual Treasury Report	Audit Committee / Full Council	Annually by 30th September after the end of each year
Treasury Management Monitoring Reports	Cabinet Member for Finance and Information Technology / Audit Committee	Quarterly
Treasury Management Practices	Executive Director for Finance, Information Systems and Property	Reviewed annually
Scrutiny of treasury management performance	Audit Committee	Quarterly

1.3 The section 151 officer is responsible for:

- 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; and
- recommending the appointment of external service providers

2 Member Training

2.1 Appropriate member training will be offered as and when needs and suitable opportunities are identified.

3 Policy on the use of external service providers

3.1 The Council currently uses Sector Treasury Services as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and ensures that undue reliance is not placed upon external service providers.

3.2 It is recognised that there is value in employing external providers of treasury management services in order to gain access to specialist skills and resources. The Council ensures that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

3.3 The main services provided by the advisor include:

- provision of interest rate forecasts and advice on the formulation of suitable borrowing and investment strategy;
- provision of regular updates on economic and political changes which may impact on the above strategies;
- provide forecasts of movements in PWLB rates;
- advice on debt rescheduling, funding policy, volatility and maturity profile analysis; and

- advice on investment counterparty creditworthiness, including provision of prudent parameters established in the light of information from leading credit rating agencies, various other analysts and associations.