Report to: **Cabinet**

Subject: **Treasury Management Strategy Statement and Annual Investment Strategy 2010/2011**

Date: **18 February 2010**

Author: **Head of Corporate Services**

1. PURPOSE OF REPORT

To seek Members' approval of the Council's Treasury Management Policy Statement, Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) for 2010/11, and to formally adopt the revised CIPFA Code of Practice.

2. BACKGROUND

2.1. The revised CIPFA Treasury Management Code of Practice 2009

In the light of the Icelandic situation in 2008, CIPFA has amended its Treasury Management in the Public Services Code of Practice (the Code) Cross-Sectoral Guidance Notes and Guidance Notes, and the template for the TMSS. It is also a requirement of the Code that it should be formally adopted, and since revisions have been made to the previously adopted code, there is a need for Council to formally adopt the revised Code and the revised Treasury Management Policy Statement.

The revised Code has emphasised a number of key areas, including:

a) All councils must formally adopt the revised Code and four clauses

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds, and will explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation, and cannot be delegated to any outside organisation.

e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks, and the credit rating for that government support.

f) Councils need a sound diversification policy with high credit quality counterparties, and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so, and only for the current capital programme or to finance future debt maturities.

h) The main annual treasury management reports MUST be approved by full Council.

i) There needs to be, as a minimum, a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.

j) Each council must delegate the role of scrutiny of treasury management and policies to a specific named body.

h) Treasury management performance and policy setting should be subjected to prior scrutiny.

k) Members should be provided with relevant training. Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

l) Responsibility for these activities must be clearly defined within the organisation.

m) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

The strategy statement (TMSS) for 2010/11 has been prepared in accordance with the revised Code, and the Council will adopt the following reporting arrangements:

Area of Responsibility:	**Responsible Body:**	**Frequency:**
Treasury Management Policy Statement (revised)	Full Council	Initial Adoption in 2010 (one-off)
TMSS & AIS and MRP Policy	Full Council	Annually before the start of the year (as before)
TMSS & AIS and MRP Policy – mid-yr report	Full Council	Mid-Year (new requirement)
TMSS & AIS and MRP	Full Council	As needed (new

Area of Responsibility:	Responsible Body:	Frequency:
Policy – updates or revisions at other times		requirement for TMSS and AIS)
Annual Treasury Outturn Report	Full Council	Annually by 30 September after the end of the year (as before)
Treasury Management monitoring reports	Cabinet	Quarterly (as before)
Treasury Management Practices	Portfolio Holder	As needed (as before)
Scrutiny of treasury management strategy	Audit Committee	Annually before the start of the year (new requirement)
Scrutiny of treasury management performance	Audit Committee	Quarterly

2.2. Revised CIPFA Prudential Code

CIPFA has also issued a revised Prudential Code, which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators:

- Authorised limit for external debt
- Operational boundary for external debt

However, the all indicators are to be presented together as one suite, and therefore in effect, no change has been made to the Council's previous practice of submitting all the indicators to Council in February as part of the Prudential Code report, and then appending them to the TMSS & AIS report in March. Please note however that the layout has been slightly changed from that approved on 24 February 2010 in order to accommodate the new classification.

In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

2.3. Revised investment guidance

It should also be noted that the department of Communities and Local Government (CLG) is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. A separate report will be made to Members to inform them when this guidance has been finalised. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

2.4. Treasury Management Strategy for 2010/11

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

The Act therefore requires the Council to set out its treasury strategy for borrowing (TMSS), and to prepare an Annual Investment Strategy (AIS) as required by Investment Guidance issued subsequent to the Act, setting out the Council's policies for managing its investments, and for giving priority to the security and liquidity of those investments. The ODPM (now CLG) investment guidance published in 2004 stated that authorities may combine the TMSS and the AIS into one report if they so choose, and the Council has adopted this approach.

The suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon the Head of Corporate Service's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisors. The strategy covers:

a) Treasury limits in force, which will limit the treasury risk and activities of the Council
b) Prudential and Treasury indicators
c) The current treasury position
d) The borrowing requirement
e) Prospects for interest rates
f) The borrowing strategy
g) Policy on borrowing in advance of need
h) Debt rescheduling
i) The investment strategy
j) Creditworthiness policy
k) Policy on the use of external service providers

Members are reminded that the MRP Policy Statement for 2010/11 is included as a separate report, and can be found elsewhere on this agenda.

2.5. Balanced Budget requirement

It is a statutory requirement under section 33 of the Local Government Finance Act 1992 for the council to produce a balanced budget. In particular, section 32 requires a local authority to calculate its budget requirement for each financial year, to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

a) Increases in interest and MRP charges caused by increased borrowing to finance additional capital expenditure, and

b) Any increases in running costs arising from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3. PROPOSAL

3.1. Treasury Management Policy Statement

In addition to the formal adoption of the revised CIPFA Code of Practice, it is necessary to obtain members' approval of a revised Treasury management Policy statement, as set out below:

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

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

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

3.2 Treasury Management Strategy Statement (incorporating Annual Investment Strategy) 2010/11

3.2.1 Treasury Limits for 2010/11 to 2012/13

It is a statutory duty under section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit".

The Council must have regard to the Prudential Code when setting the "Authorised Limit", which represents the affordable borrowing limit, and which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax is "acceptable".

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

3.2.2 Prudential & Treasury Indicators for 2010/11 to 2012/13

Appendix 1 details the Prudential and Treasury Indicators required for the purpose of setting an integrated Treasury Management Strategy. Cabinet considered these indicators on 14 January 2010, and they were referred for approval by Council on 24 February 2010. The table at Appendix 1 differs to that approved on 24 February only in presentation, in order to comply with the new definition of Treasury indicators referred to above.

Prudential indicators are based on estimates of expected outcomes:

a) Ratio of financing costs to net revenue stream

b) Incremental impact of capital investment decisions

c) Capital expenditure

d) Capital financing requirement (CFR)

Treasury indicators are based on limits, beyond which activities should not pass without management action.

a) Authorised Limit for external debt (the "affordable borrowing limit")

b) Operational Boundary for external debt

c) Upper limit for fixed interest rate exposure

d) Upper limit for variable rate interest exposure

e) Upper limits for the maturity structure of borrowing

f) Upper limit for principal sums invested for periods over 364 days

3.2.3 **Current Treasury Portfolio Position**

The Council's treasury portfolio position at 5 February 2010 is detailed below:

	£000s	**Av Rate %**
Fixed Rate Borrowing - PWLB	**6,812**	4.07
Total Investments	**(10,150)**	0.77
Net Borrowing / (Investment)	**(3,338)**	

3.2.4 **Borrowing Requirement**

The Council's estimated borrowing requirement to finance its capital programme for the current year, 2009/10, and its anticipated requirements for the years 2010/11 to 2012/13 are detailed below. Due to favourable interest rates, borrowing in advance of cash flow need, but within the "capital financing requirement Prudential indicator", was undertaken during 2006/07 and 2007/08, therefore the borrowing "requirement" below differs to the actual borrowing undertaken.

Future Borrowing Requirement	**2009/10** £m	**2010/11** £m	**2011/12** £m	**2012/13** £m
Borrowing required for Capital Programme	1.5	1.3	1.2	1.2
Alternative Financing Arrangements	0.0	0.0	0.0	0.0
Total	**1.5**	**1.3**	**1.2**	**1.2**

3.2.5 Prospects for Interest Rates

The Council has appointed Sector Treasury Services as its treasury advisors, and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together the Sector central view and those of a number of leading city forecasters for short term or variable (Bank Rate) and longer term fixed interest rates. Sector's central forecast of bank rate is as follows:

- 2010 0.5%
- 2011 1.5%
- 2012 3.5%
- 2013 4.5%

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. Sector's detailed view of the current economic background is given at Appendix 4.

Members' attention is drawn to the fact that all Sector's more detailed forecasts at Appendix 2 follow the convention used by HM Treasury in its budget reports and statistics, in as much as years are always calendar years, and not local authority financial years. Quarter 1 (Q1) therefore refers to the January to March quarter, not the first quarter of a local authority financial year, April to June.

3.2.6 Borrowing Strategy

(a) Borrowing Rates:

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

	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Mar 12	Mar 13
Bank rate	0.05%	0.5%	0.75%	1.00%	1.50%	3.5%	4.5%
5 yr PWLB	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10 yr PWLB	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25 yr PWLB	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50 yr PWLB	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

More detailed forecasts may be found at Appendix 2.

In view of the above Sector forecast, the Council's borrowing strategy will be based upon the following information:

- Rates are expected to gradually increase during the year, so it should therefore be advantageous to time new long-term borrowing for the start of the year when 25-year PWLB rates fall back to, or below, the central forecast rate of around 4.65%, a suitable trigger point for new fixed rate long-term borrowing.

- Variable rate borrowing is expected to be cheaper than long-term borrowing, and will therefore be attractive throughout the financial year, compared to taking long-term fixed rate borrowing.

- Under 10-year PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates, offering a range of options for new borrowing, which will spread debt maturities away from a concentration in long dated debt.

- There is expected to be little difference between 25-year and 50-year rates, thus loans in the 25-30-year periods could be seen as more attractive than 50-year borrowing, as the spread between the PWLB new and early repayment rates is considerably less. This would maximise the potential for debt rescheduling, and allow the Council to re-balance its debt maturity profile.

- Consideration will also be given to borrowing fixed rate market loans at 25-50 basis points below the PWLB target rate, and to maintaining an appropriate balance between PWLB and market debt in the portfolio.

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

- If it was felt that there was a significant risk of a sharp FALL in long-term and short-term rates, perhaps increase of risks around relapse into recession, or of risks of deflation, then long-term borrowings will be postponed. Potential rescheduling from fixed rate funding into short-term borrowing will also be considered.

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

(b) **External versus Internal Borrowing:**

Paragraph 43 of the revised prudential Code now requires the Council to explain its policy on gross and net debt, if there is a significant difference between them. The table below summarises the Council's estimated difference between gross and net debt which is not significant and is anticipated to remain stable.

Comparison of gross and net debt positions at year-end	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Proj O/T	Est	Est	Est
	£000	£000	£000	£000	£000
Actual external debt (gross)	6,812	6,812	8,200	9,500	11,300
Net Debt	1,412	2,812	4,200	5,500	7,300
Difference	5,400	4,000	4,000	4,000	4,000

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

The next financial year is expected to be one of historically abnormally low bank rate. This provides a continuation of the current window of opportunity for local authorities to fundamental review their strategy of undertaking new external borrowing.

Over the next three years, investment rates are therefore expected to be below long- term borrowing rates, so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing, and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This "internal borrowing" would maximise short-term savings.

However, short-term savings by avoiding new long-term external borrowing in 2010/11 will also be weighed against the potential for incurring long-term extra costs by delaying unavoidable new external borrowing until later years, when PWLB long-term rates are forecast to be significantly higher.

Against this background, caution will be adopted with regard to 2010/11 treasury operations. The Head of Corporate Services will monitor the interest rate market and will adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet at the next available opportunity.

3.2.7 Policy on borrowing in advance of need

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

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

- Ensure that there is a clear link between the capital programme and the 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 of 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 advantages and disadvantages of alternative forms of funding.

Consider the alternative interest bases available, the most appropriate periods to fund, and the repayment profiles to use.

3.2.8 Debt Rescheduling

The introduction of the new PWLB rates structure on 1 November 2007 that introduced a spread between the rates applied to new borrowing and repayment of debt, has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings may still be achievable through the use of LOBOs (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises.

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

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cashflow savings, at minimum risk

- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

- Reduce counterparty and interest rate exposure

There has been much discussion as to whether the size of the spread between the long-term PWLB repayment and new borrowing rates should be revised downwards in order to help local authorities currently dissuaded from using investment cash balances to repay long-term debt and thereby reduce counterparty and interest rate risk exposure. The DMO/PWLB have issued a consultation document with suggested options to revise the methodology used to calculate the early repayment rate. The consultation period ended in January 2010 and the developments will be monitored by the officers, and by the treasury advisors. The strategy may be amended if significant changes are introduced.

All rescheduling will be reported to Cabinet at the meeting following its action.

3.2.9 <u>Annual Investment Strategy</u>

a) <u>Investment Policy</u>

The Council will have regard to the CLG's guidance on Local Government Investments ("the guidance") issued in March 2004, any revisions to that guidance, and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

All investments will be made in sterling, and the Council's general policy objective is the prudent investment of its treasury balances.

The Council's investment priorities are:

- The security of capital
- The liquidity of its investments

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low, in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return remains unlawful, and the Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed at Appendix 3 under "Specified" and "Non-Specified" categories. An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and the payment or repayment is only payable in sterling.
- The investment is not a long-term investment, ie. less than one year.
- The making of the investment is not defined as capital expenditure.
- The investment is made with a body of high credit quality, or with the UK government, a local authority or a parish council.

Only minimal reference need be given to specified investments in the Annual Investment Strategy, and they will generally be used for cash-flow management.

Non-specified investments are all those not meeting the criteria for specified investments. They may even be made with the same counterparty as specified investments, being non-specified only by way of the maturity period being over one year. Alternatively they may be more complex instruments, or those offering slightly higher risk or lower liquidity. If used at all, non specified investments will tend only to be used for the longer-term investment of core-balances.

Appendix 3 also sets out:

- The advantages and associated risk of investments under the non-specified category
- The upper limit to be invested in each non-specified category
- Which instruments would best be used after consultation with the Council's treasury advisors.

Counterparty limits will be as set out in the Council's Treasury Management Practices (Schedules)

b) <u>Creditworthiness Policy</u>

This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element.

However, it does not rely solely on the current credit ratings of counterparties but also uses the following as “overlays”:

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

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

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

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

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

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

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

In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap (CDS) against the “iTraxx” benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution, or removal from the Councils lending list. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

c) **Country Limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The revised list of countries that qualify using this credit criteria as at the date of this report are shown in appendix 6. This list will be added to or deducted from by officers should ratings change in accordance with this policy. The list reflects those countries that may be used. Investments are currently only made with UK institutions, and Sector have issued advice that particular care and caution be exercised if consideration is given to pacing deposits with Irish and Portuguese banks, as their economies and banking systems are currently under severe pressure.

d) **Investments defined as capital expenditure**

The acquisition of share capital or loan capital in a body corporate is defined as capital expenditure under regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources, and will be classified as non-specified investments. Investments in “money market funds”, which are collective investment schemes, and bonds issued by “multilateral development banks”, both defined in SI 2004 No 534, will not be treated as capital expenditure. A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

e) **Provisions for credit-related losses**

If any of the Council’s investments appear to be at risk of loss due to default, ie this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates, the Council will make revenue provision of an appropriate amount.

f) **<u>Investment Strategy</u>**

In-house strategy

The Council's in-house managed funds are mainly cashflow derived, however, there has for some time been a core balance available for investment over a 2-3 year period if appropriate. Given the borrowing strategy during 2009/10 and that proposed above for 2010/11, it is envisaged that this core balance will be significantly depleted in order to minimise credit risk. Investments will accordingly be made with careful reference to any remaining core balance, to cashflow requirements, and to the outlook for short-term interest rates (ie. for investments up to 12 months). As at 4 February 2010, the Council did not hold any investments spanning the whole of the forthcoming financial year 2010/11, ie. maturing beyond 31 March 2011.

Interest Rate Outlook

Bank Rate has been unchanged at 0.5% since March 2009. It is forecast that Bank Rate will start rising in Q3 2010 and then to rise steadily. Sector's forecast for Bank Rate is as follow:

2010	0.5%
2011	1.5%
2012	3.5%
2013	4.5%

There is a downside risk to this forecast if recovery from recession proves to be weaker and slower than currently expected.

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

For its cashflow generated balances, the Council will seek to use its corporate deposit accounts and short-dated fixed term deposits (1-3 months) in order to benefit from the compounding of interest. For 2010/11, Sector recommends that the Council should budget for an investment return of 0.9% on investments placed during the year.

g) **<u>End of Year Investment Report</u>**

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

3.2.10 <u>Policy on the use of External Service Providers</u>

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

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

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

3.2.11 <u>Scheme of delegation</u>

Full Council is responsible for:

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

Cabinet is responsible for:

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

Audit Committee is responsible for:

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

3.2.12 Role of the Section 151 Officer

The role of the S151 (responsible) officer includes the following:

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

4. RECOMMENDATIONS

It is recommended that:

1. Members note the formal adoption of the revised CIPFA Code of Practice, and the revised Treasury Management Policy Statement, and refer them to Full Council for approval. The full wording of these resolutions is given at Appendix 7.

2. Members note the Treasury Management Strategy Statement and Annual Investment Strategy (TMSS and AIS) for 2010/11 to 2012/13 as detailed in the report, and refer it to full Council for approval.