

**Treasury Management Statement and Annual Investment
Strategy 2008/09**

1.0 Introduction

1.1 The Guidance on Local Government Investments issued by the Office of the Deputy Prime Minister (ODPM) and the CIPFA Code of Practice for Treasury Management set out the investment principles and issues that the Council should consider when approving its Treasury Management Strategy.

1.2 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: -

increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
any increases in running costs from new capital projects

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

2.0 Investment Principles

2.1 All investments will be in sterling. In accordance with the 2004 Guidance from the ODPM the general policy objective is for the prudent investment of our treasury balances. Our investment priorities are (a) the security of capital and (b) liquidity of investments.

2.2 We will aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Guidance maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and we will not engage in such activity.

3.0 Specified and Non-Specified Investments

3.1 Investment instruments identified for use in the financial year are listed in Annex B under the 'Specified' and 'Non-Specified' Investments categories laid down by ODPM regulations. Specified investments have a maturity of less than one year, whereas non specified investments can be made for periods of more than one year and can therefore be subject to more risk.

4.0 Security of Capital: The use of Credit Ratings

4.1 Credit quality of counterparties and investment schemes will be determined by reference to credit ratings published by Fitch Rating Agency.

4.2 Monitoring of credit ratings:

- The Council is alerted to changes in Fitch ratings by its Treasury Management advisors, Sector.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the Section 151 Officer or the Head of Financial Services will have the discretion to include it on the lending list.

4.3 The use of unrated counterparties will largely be restricted to certain building societies and their credit worthiness will be assessed on the basis of net assets. Details are set out in Annex C.

5.0 Current Portfolio Position

5.1 The Council's estimated treasury portfolio at 31st March 2008 is as follows:

Investments	Principal (£m)	Average Interest Rate %
At call	5.0	5
More than one year	15.0	4.7
Total Investments	20.0	4.8

6.0 Investment Strategy

6.1 In order to develop a strategy for the next financial year it is necessary to take a view on future interest rate movements. I have relied heavily on advice from Sector, however interest rate movements are notoriously difficult to predict.

6.2 Annex A draws together a number of current City forecasts for short term or variable (the bank rate) and longer fixed interest rates. The following table gives the latest Sector central view of the interest rate forecast.

	Q1 2008 %	Q2 2008 %	Q3 2008 %	Q4 2008 %	Q1 2009 %	Q2 2009 %	Q3 2009 %	Q4 2009 %
Bank rate	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00

6.3 Sector is forecasting that Bank Rate has now started on a downward trend from 5.75% to 5.50% in December 2007. This will continue with further cuts forecast to 5.25% in Q1 2008 and again to 5.00% in Q2 2008. It is then expected to remain unchanged for the next two years. In view of this downward trend we locked into replacement investments at over 6% interest for £7.5m of our investment portfolio which is falling due for renewal in the forthcoming financial year.

6.4 For our cash flow generated balances we will seek to utilise our business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.

6.5 The officers will adhere strictly to the CIPFA Code of Practice, to the relevant Treasury Management Practices, to internal procedures and the Prudential Code.

6.6 The Council's Lending List will be kept under continuous review.

7.0 **Conclusion**

7.1 The security of investments and the income generated by Treasury Management activity are vitally important to the Council. Income from investments total £1.150m, equivalent to £31 for the average Band D council tax. This strategy sets out how we will approach the task of managing our investment activity in the forthcoming financial year.

INTEREST RATE FORECASTS

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

1. SURVEY OF ECONOMIC FORECASTS

HM Treasury – November 2007 summary of forecasts of 24 City and 13 academic analysts for Q4 2007 and 2008. (2009 – 2011 are based on 21 forecasts)

BANK RATE FORECASTS	actual	quarter ended		annual average Bank Rate		
		Q4 2007	Q4 2008	ave. 2009	ave. 2010	ave. 2011
Median	5.75%	5.80%	5.30%	5.24%	5.22%	5.26%
Highest	5.75%	5.80%	6.30%	6.00%	6.00%	6.00%
Lowest	5.75%	5.30%	4.80%	4.50%	4.06%	4.00%

2. INDIVIDUAL FORECASTS

Capital Economics interest rate forecast – 12 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
5yr PWLB rate	4.65%	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10yr PWLB rate	4.65%	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25yr PWLB rate	4.65%	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50yr PWLB rate	4.55%	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

UBS interest rate forecast (for quarter ends) – 12 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank Rate	5.50%	5.25%	5.00%	4.75%	4.50%
10yr PWLB rate	5.19%	5.23%	5.25%	5.30%	5.35%
25yr PWLB rate	4.70%	4.75%	4.80%	4.85%	4.90%
50yr PWLB rate	4.55%	4.60%	4.65%	4.70%	4.75%

Annex B

Specified Investments

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum Credit Criteria
Debt Management Agency Deposit Facility	High – Govt-backed
Term deposits – UK Government	High – Govt-backed
Term deposits – other Local Authorities and Police, Fire and National Park Authorities	See schedule Annex C
Term deposits – banks and building societies	See schedule Annex C

Non Specified Investments

	Minimum Credit Criteria	A. Why use it B. Associated Risks
Term deposits – other Local Authorities and Police, Fire and National Park Authorities (with maturities in excess of 1 year)	See schedule Annex C	<p>A. Certainty of rate of return over period invested. No movement in capital value of deposit despite changes in interest rate movement.</p> <p>B. Illiquid; as a general rule, cannot be traded or repaid prior to maturity. Return will be lower if interest rates rise after making the investment. Credit risk; Very low.</p>
Term deposits – banks and building societies (with maturities in excess of 1 year)	See schedule Annex C	<p>A. Certainty of rate of return over period invested. No movement in capital value of deposit despite changes in interest rate movement.</p> <p>B. Illiquid; as a general rule, cannot be traded or repaid prior to maturity. Return will be lower if interest rates rise after making the investment. Credit risk; Very low.</p>
Callable deposits – with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	See schedule Annex C	<p>A. Enhanced income – potentially higher return than using a term deposit with similar maturity.</p> <p>B. Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. Period over which investment will actually be held is not known at the outset. Interest rate risk; borrower will not pay back deposit if interest rates rise after deposit made.</p>

Annex C

Treasury Management Counterparty list

Lending Criteria for Funds and Period Lent

Category	Credit Rating	Lending Classification	Max. Funds Lent	Max. Lending Period
Banks	AAA, AA plus & AA AA minus A plus & A	Gold Silver Bronze	£5m £5m £2.5m	Call to 5 years Call to 1 year Call to 1 year
Building Societies	Assets up to £10bn Assets up to £1bn Assets over £0.5bn Assets < £0.5bn	Gold + Gold Silver Bronze	£5m £5m £2.5m £1m	Call to 5 years Call to 1 year Call to 3 months Call to 3 months
Local Authorities: Fire Authorities, Police Authorities National Park Authorities	N/A	Gold +	£5m	Call to 5 years
The Council's clearing Bank – Co- operative Bank Plc	N/A	Gold	£5m	Call to 1 year