St Edmundsbury
BOROUGH COUNCIL

B410

Treasury Management Sub-Committee
17 January 2011

Treasury Management Performance and Annual Treasury Management and Investment Strategy 2011/12

1. Introduction

1.1 CIPFA's revised Code of Practice for Treasury Management (the Code) published in November 2009, was adopted by the Council on 23 February 2010. Given that Treasury Management activities involve the management of significant cashflows and investments, the Code requires that members are provided with regular reports on the performance of the Council's treasury management function. In addition, prior to the start of each financial year, the Council is required to formally approve an Annual Treasury Management and Investment Strategy setting out its treasury management policies and strategies for the forthcoming year.

2. Purpose of this Report

2.2 The purpose of this report is to:

(a) provide an update on Treasury Management activity and performance for the period 1 April to 31 December 2010 (as set out in section 4 of this report); and
(b) seek approval for the Annual Treasury Management and Investment Strategy Statements for 2011/12 and Prudential Indicators (as detailed in Appendix 2 to this report).

3. Recommendation

2.2 The Sub-Committee are asked to:

a. scrutinise the content of this report, including details of treasury management performance for the first 9 months of the financial year, and
b. make recommendations via the Performance and Audit Scrutiny Committee to Cabinet and Council regarding approval of the proposed Annual Treasury Management and Investment Strategy for 2011/12 (appendix 2 refers).

4. Investment Activity: 1 April 2010 to 31 December 2010

4.1 The total amount invested at 1 April 2010 was £35.15m and at 31 December was £42.55m. The increase in balances over this period was due primarily to timing differences in respect of the collection of local taxes (Council Tax and Non Domestic Rates) and the payment of precepts (ie to Suffolk County Council, Suffolk Police and central government). The average level of funds available for investment purposes in the first nine months of 2010/11 was £41.55m.

4.2 The 2010/11 Annual Treasury Management and Investment Strategy set out the Council's projections for the current financial year. The budget for investment income in 2010/11 is £0.566m, equivalent to £14.91 for each Council Tax Band D property. This represents a target rate of return on investments of 1.50%.

4.3 As at the end of December 2010 interest actually earned during the first 9 months of the financial year amounted to £0.410m against the profiled budget for the period of £0.445m, a budgetary deficit of £0.035m. The under achievement of interest on investments during this period was due primarily to the continuation of historically low interest rates. In the nine month period covered by this report, the average rate of interest achieved was 1.27% against the target rate of 1.50%. This reflects the maturity of the Council's remaining higher yield longer term investments and also the continued difficulties being experienced in finding attractive rates of interest with financial institutions that can deliver the required level of security.

4.4 Due to continuing concerns about the economic recession, the Council's treasury management advisors (Sector) are currently predicting that the Bank of England's Monetary Policy Committee (MPC) will hold bank base rates at their current historic low of 0.5% through to the last quarter of 2011.

4.5 It is against this background that officers have been working with Sector to review the council's risk appetite with a view to increasing investment returns whilst maintaining high levels of security and liquidity of funds. As a result, on 18 October 2010 the Treasury Management Sub-Committee considered report B249 which, amongst other things, set out proposals for an extension to the Council's lending limits for all highly rated banks and building societies. These proposals were subsequently approved by full Council on 14 December 2010.

4.6 The increased investment limits will provide the treasury management team with greater flexibility in the placing of funds, which should help both to increase average investment returns and enable a higher proportion of the Council's portfolio to be placed with highly rated financial institutions. As an example, on 15 December 2010, the increased limits enabled the Council to place a further 12 month investment with Cater Allen at a rate of 2.5%. This rate was 0.6% above the next best available option, representing an additional investment return of £12,000 over the term of the investment.

4.7 Despite the extended lending criteria, if current interest rates continue to prevail, the budgeted income from investments for 2010/11 may still not be achieved. In this situation, any shortfall in budgeted income will be met from the interest equalisation reserve.

4.8 A full list of investments held as at 31 December 2010 is shown at Appendix 1.

5. Annual Treasury Management and Investment Strategy 2010/11

5.1 The CIPFA Code of Practice requires that a treasury management and investment strategy is approved by the Council prior to the beginning of the financial year to which it relates. The proposed Treasury Management and Investment Strategy Statements for 2011/12, attached at Appendix 2 to this report, meets the requirements of the CIPFA code together with the DCLG's Guidance on Local Government Investments and the statutory requirements of the Local Government Act 2003 (relating to the need to set Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable). The strategies give priority to the security and liquidity of investments whilst at the same time seeking to achieve value for money in treasury management. They also seek to give maximum flexibility in terms of the usage of fixed and variable rate investments and allow for the balancing of certainty of income arising from fixed term investments with the need to retain a core balance that can be easily liquidated should the need arise.

5.2 The strategy confirms the Council's debt free status and indicates that there are no plans to borrow monies for capital purposes in the foreseeable future. Within this overall strategy the Chief Finance Officer may approve short term borrowings (less than 12 month in duration) to provide for day to day cash flow management. This does not affect the Council's debt free status.

5.3 It is estimated that in 2011/12 Treasury Management activity will generate income of £0.457m (which is equivalent to £11.97 for each Council Tax Band D property). This represents an average target investment rate for the year of 1.5%. The reduction in investment income compared to the 2010/11 estimate (ie investment income of £0.566m, equivalent to £14.91 for each Council Tax Band D property) takes into account:

- the latest projections regarding the continuation of historic low interest rates;
- the maturity dates for the Council's current fixed term investments; and
- the reduction in Council balances arising from the impact of the Council's capital expenditure plans and reducing asset disposals programme.

5.4 Appendix 3 provides a summary of the national and international forecasts provided by the Council's treasury management advisors (Sector) which support the underlying interest rate projections used in the preparation of these estimates.

Appendix 1

Council Investments as at 31 December 2010

Principal	Counterparty	Start Date	Maturity Date	Interest Rate (%)
£0	Santander UK Business Reserve Account	Inst/Acc	Inst/Acc	0.6500
£400,000	Bank of Scotland Call A/C	Inst/Acc	Inst/Acc	0.7500
£0	Bank of Scotland BasePLUS Account	Inst/Acc	Inst/Acc	0.5000
£2,150,000	Barclays Reserve Account	Inst/Acc	Inst/Acc	0.8000
£3,000,000	Clydesdale 30 Day Notice Account	30 day	30 day	0.8500
£1,000,000	National Counties Building Society	01/07/2010	04/01/2011	1.3000
£1,000,000	Kent Reliance Building Society	05/07/2010	05/01/2011	1.1000
£500,000	Nottingham Building Society	02/08/2010	17/01/2011	1.1000
£500,000	West Bromwich Building Society	01/09/2010	17/01/2011	0.9500
£1,500,000	Principality Building Society	13/08/2010	20/01/2011	1.0000
£1,000,000	Bank of Scotland	01/02/2010	31/01/2011	1.8200
£1,000,000	Newcastle Building Society	02/08/2010	02/02/2011	1.2500
£1,000,000	Cater Allen	02/08/2010	02/02/2011	1.3300
£1,000,000	Skipton Building Society	27/08/2010	15/02/2011	1.0000
£500,000	Nottingham Building Society	27/08/2010	15/02/2011	1.1200
£1,000,000	Nottingham Building Society	01/09/2010	23/02/2011	1.1500
£1,000,000	Leeds Building Society	01/09/2010	23/02/2011	0.8200
£500,000	Norwich & Peterborough Building Society	01/09/2010	01/03/2011	1.2000
£500,000	Skipton Building Society	01/09/2010	01/03/2011	1.0000
£2,000,000	Royal Bank of Scotland	08/03/2010	07/03/2011	1.2700
£1,000,000	Bank of Scotland	09/03/2010	09/03/2011	1.8500
£1,500,000	Norwich & Peterborough Building Society	01/10/2010	15/03/2011	1.1500
£1,000,000	Norwich & Peterborough Building Society	01/10/2010	15/03/2011	1.1600
£1,000,000	Progressive Building Society	01/10/2010	22/03/2011	1.1200
£1,500,000	Kent Reliance Building Society	01/10/2010	01/04/2011	1.1500
£500,000	West Bromwich Building Society	15/10/2010	15/04/2011	1.0500
£500,000	Newcastle Building Society	01/11/2010	15/04/2011	1.1800
£500,000	Skipton Building Society	01/11/2010	15/04/2011	0.9500
£1,000,000	Thurrock Borough Council	01/11/2010	22/04/2011	0.7500
£500,000	Skipton Building Society	01/11/2010	03/05/2011	1.0200
£500,000	Coventry Building Society	01/11/2010	03/05/2011	0.9900
£1,000,000	Leeds Building Society	04/11/2010	04/05/2011	0.9000
£500,000	Principality Building Society	01/12/2010	16/05/2011	0.9700
£1,000,000	Progressive Building Society	01/12/2010	23/05/2011	1.1500
£1,000,000	Nottingham Building Society	01/12/2010	01/06/2011	1.1500
£500,000	Norwich & Peterborough Building Society	01/12/2010	01/06/2011	1.2000
£500,000	West Bromwich Building Society	01/12/2010	01/06/2011	1.1000
£1,000,000	Bank of Scotland	05/07/2010	05/07/2011	1.8000
£2,000,000	Bank of Scotland	02/08/2010	02/08/2011	1.9500
£2,000,000	Cater Allen	30/09/2010	29/09/2011	2.5000
£1,000,000	Cater Allen	17/11/2010	17/11/2011	2.5000
£1,000,000	Cater Allen	01/12/2010	01/12/2011	2.5000
£2,000,000	Cater Allen	15/12/2010	14/12/2011	2.5000
£42,550,000	**TOTAL**			

Appendix 2

Annual Treasury Management and Investment Strategy Statements 2011/12

1. Introduction

Treasury Management Policy Statement

1.1 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”.

1.2 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 organisation.

1.3 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.

Statutory requirements

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

1.5 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.6 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

Chartered Institute of Public Finance and Accountancy (CIPFA) requirements

1.7 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management was adopted by this Council on 21 March 2002, and the November 2009 revised Code was adopted on 23 February 2010.

1.8 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Treasury Management Sub-Committee.

Treasury Management Strategy for 2011/12

1.9 The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the Chief Finance Officer's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector Treasury Services Limited (Sector). The strategy covers:

- Statutory requirement for a balanced budget
- treasury limits in force which will limit the treasury risk and activities of the Council
- prudential indicators
- the current treasury position
- prospects for interest rates
- the borrowing strategy
- the investment strategy
- creditworthiness policy and lending criteria
- policy on use of external providers
- the treasury management scheme of delegation
- the Council's Minimum Revenue Provision (MRP) strategy.

Balanced Budget Requirement

1.10 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. Treasury Limits for 2011/12 to 2013/14

2.1 It is a statutory duty under S.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". In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, 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’.

2.3 The Council is debt free and there are no plans to borrow monies in the foreseeable future. Within this overall strategy the Chief Finance Officer may approve short term borrowings (ie less than 12 months in duration) to provide for day to day cash flow management requirements. This does not affect the Council’s debt free strategy or status.

3. Prudential and Treasury Indicators for 2011/12 to 2013/14

3.1 The Prudential Code requires the Council to set Prudential Indicators on External Debt. As indicated above it is not anticipated that the Council will undertake any borrowing with the result that the required indicators for “Authorised Limit”, “Operational Boundary” and the “Maturity Structure of Borrowing” will all be zero.

3.2 The Council must also consider risk associated with interest rate exposures and set upper limits on the level of investments for both fixed rate and variable rate investments, together with an upper limit on the level of investments with maturity of more than 364 days. The majority of in-house investments are fixed rate. To provide maximum flexibility it is proposed that the upper limit on fixed rate investments be set at 95% of the amount available for investment. Similarly in order to provide maximum flexibility, the upper limit on variable rate investments has been set at 40% of total investments, so that at all times the Council has at least 60% in fixed rate investments to provide stability.

3.3 With regard to sums invested for more than 364 days, there is a need to balance certainty of income with flexibility to take advantage of upward movements in interest rates, whilst at the same time retaining a core element of investments that can be easily liquidated should the need arise. The upper limit on investments for more than 364 days has therefore been set at £20 million. This figure allows the in-house treasury management team to invest up to £20 million for periods of 1-5 years to provide increased certainty of income.

3.4 As a result the following prudential and treasury management indicators are relevant for the purposes of setting an integrated treasury management strategy.

	2009/10	2010/11	2011/12	2012/13	2013/14
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Authorised limit for external debt -					
Borrowing	£0.00	£0.00	£0.00	£0.00	£0.00
other long term liabilities	£0.00	£0.00	£0.00	£0.00	£0.00
TOTAL	£0.00	£0.00	£0.00	£0.00	£0.00
Operational boundary for external debt -					
Borrowing	£0.00	£0.00	£0.00	£0.00	£0.00
other long term liabilities	£0.00	£0.00	£0.00	£0.00	£0.00
TOTAL	£0.00	£0.00	£0.00	£0.00	£0.00
Upper limit for fixed interest rate exposure					
expressed as a % of total investments			95%	95%	95%

	2009/10	2010/11	2011/12	2012/13	2013/14
Upper limit for variable rate exposure expressed as a % of total investments			40%	40%	40%
Upper limit for total principal sums invested for over 364 days (per maturity date)			£20m	£20m	£20m

4. Annual Investment Strategy

Investment Policy

4.1 The Council will have regard to the Department for Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

4.2 The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity.

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

4.4 Investment instruments identified for use in the financial year are set out in section 5 below.

5. Creditworthiness Policy and Lending Criteria

Rated Banks and Building Societies

5.1 This Council uses the creditworthiness service provided by Sector Treasury Services Ltd. 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 spread to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

5.2 This modelling approach combines credit ratings, credit watches, credit outlooks and credit default swaps in a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the maximum duration and value of investments with individual banks and building societies. Where banks/building societies are part of a merged group structure, the limits are applied to the group as a whole. 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.

5.3 The Council will therefore use counterparties within the following colour coded bands:

Lending Criteria: Rated Banks and Investment Scheme

Sector Colour Code Key	Maximum Duration / Investment Values
Purple	Max £10m for max of 2 years (subject to max 30% of portfolio)
Orange	£9m for max of 2 years (subject to max 30% of portfolio)
Red	£8m for max of 1 year (subject to max 25% of portfolio)
Green	£4m for max of 6 months (subject to max 20% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£9m for max 1 year

5.4 The lending criteria for rated building societies is based on the same Sector colour coding system as the rated banks. However, in recognition of their mutual status and the increased regulatory framework governing such societies, the Council's strategy allows for longer investment durations than comparable banks.

Lending Criteria – Rated Building Societies

Sector Colour Code Key	Proposed Limits
Red	£8m for max of 1 year (subject to max 25% of portfolio)
Green	£4m for max of 1 year (subject to max 20% of portfolio)

5.5 All credit ratings will be monitored on an on-going basis. 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 the counterparty/investment scheme 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information (as provided by the Council's brokers), information on government support for banks and the credit ratings of that government support.

Non Rated UK Building Societies

5.7 The majority of UK building societies do not obtain formal credit ratings and as such, investments with these organisation have to be treated with caution. In the absence of formal credit ratings the following credit criteria (based on asset values and other sources of financial and credit rating information) have been established by the Council in consultation with Sector.

Non Rated UK Building Societies – Asset Base Criteria

~~Asset base > £1,000m~~	~~£2.5m for max 6 months~~
Asset Base	Maximum Duration / Investment Values
Asset base > £2,500m	£3m for max 6 months

5.8 In addition to the above asset base criteria the following additional criteria are applied:

- Only building societies specifically covered by the provisions of the government's banking support package are to be used A commercial credit rating organisation, Dun and Bradstreet, to be used to provide credit rating reports on building societies, prior to the placing of funds, to ensure that the proposed investment values are within recommended credit limits
- Latest available accounts to be obtained and reviewed by in-house staff to establish key trends and to ensure that Dun and Bradstreet recommendations are based on latest available financial results
- Review of available media coverage for any advance negative warnings regarding the stability of individual building societies.

5.9 The Chief Finance Officer, in consultation with the Portfolio Holder for Resources and Efficiency, will continue to monitor the adequacy of the above lending criteria and make changes as necessary to respond to the changing economic climate and external advice. Details of any changes made will be included within the next treasury management reporting cycle to the Performance and Audit Scrutiny Treasury Management Sub Committee, Cabinet and full Council.

Investment Instruments

5.10 Investment instruments identified for use in the financial year are listed below under the Specified and Non Specified investment categories.

5.11 **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 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Treasury Bills	--
Term deposits – local authorities	--
Term deposits – banks and rated building societies (see separate table for credit criteria re non-rated building societies)	Based on Sector's Colour Code system
Bonds issued by a financial institution which is guaranteed by the UK government	AAA
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A, Individual C, Support 2
Sovereign bond issues (non-UK)	AAA
Money Market Funds	Short-term F1, Long-term A, Individual C, Support 2

5.12 **Non-Specified Investments -** All such investments will be sterling denominated, with maturities over 1 year, meeting the minimum 'high' rating criteria where applicable, or with non rated organisations – ie non rated building societies.

A maximum of 90% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	Max % of total investments	Max. maturity period
Term deposits – other LAs with maturities >1yr	-	50	2 years
Term deposits – non-rated building societies	See table at 5.7 above	90	1 year
Term deposits – banks and rated building societies with maturities >1yr	Based on Sector's Colour Code system – see tables at 5.3 & 5.4 above	90	2 years
Bonds issued by multilateral development banks with maturities >1yr	AAA	25	2 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities >1yr	AAA	25	2 years

Country limits

5.13 The Council has determined that it will only use approved counterparties from countries other than the UK with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

6. Investment Strategy

6.1 **Management of Council's Investments -** All the Council's investments are currently managed in house. The majority of the Council's investments are placed through the money markets with banks and building societies for fixed periods of time (up to two years duration) and at fixed rates of interest. The Council also retains a core balance within liquidity accounts which takes account of the Council's proposed capital expenditure and the need to retain flexibility for cash flow purposes. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short and long term interest rates. So far as fixed term investments are concerned, as at the time of this report, the Council already has a number of investments that span the financial year, however there are no investments for periods greater than 12 months in duration.

6.2 **Bank Base Rate Projections** - The Bank Rate has been unchanged at 0.50% since March 2009. Sector forecasts that rates will commence rising in quarter three of 2011/12 and then to rise steadily thereafter. Their Bank Rate forecasts for financial year ends (March) are as follows: -

- 2010/2011 0.50%
- 2011/2012 1.00%
- 2012/2013 2.25%
- 2013/2014 3.25%

6.3 Sector advises that there is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

6.4 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

6.5 **2011/12 Target Rate on Investments** - Sector is advising clients for 2011/12 to budget for an average investment return of 0.7% on investments placed during 2011/12. Based on this projection, and taking into account the returns being achieved on the Council's current portfolio of fixed term investments, the average target rate investment return for 2011/12 is 1.5%. For 2012/13 Sector project an average investment rate of 1.7% rising to 3.1% during 2013/14. These rates are used to help inform the Council's medium term financial strategy and fixed term investment decisions.

6.6 Taking into account the projected value of the investment portfolio after cash flow movements during 2011/12, it is estimated that investments in 2011/12 will generate income of £457,000. This is equivalent to £11.97 for each Council Tax Band D property.

7. Policy on the use of external service providers

7.1 The Council uses Sector Treasury Services Ltd (Sector) as its external treasury management advisors. 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.

8. Treasury management scheme of delegation

8.1 The Council's scheme of delegation for the treasury management function is as follows:

(i) Cabinet/Full Council

- Adoption of revised CIPFA Treasury Management Code and Treasury Management Policy
- Approval of Annual Treasury Management and Investment Strategy (prior to start of financial year)
- Receiving/reviewing mid-year treasury management report
- Receiving/reviewing annual outturn report
- Budget consideration and approval

(ii) Performance and Audit Scrutiny Committee (Treasury Management Sub Committee)

- reviewing the treasury management policy and procedures and making recommendations to the Cabinet/Full Council
- reviewing quarterly treasury management performance reports, mid year review and annual outturn reports and making recommendations to Cabinet/full Council

(iii) The treasury management role of the Chief Finance Officer

- recommending clauses and treasury management policy for approval, reviewing the same regularly, and monitoring compliance
- approval of treasury management practices (TMPs)
- 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 adequacy of division of duties
- ensuring the adequacy of internal audit, and liaising with external audit
- approving the appointment of external service providers

9. Minimum Revenue Provision Policy Statement

9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. Capital expenditure can be financed though the Council's capital reserves (accumulated from capital receipts), revenue contributions (including use of revenue reserves) or external debt. Where capital expenditure is financed by external debt it would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and such expenditure is spread over several years to match the expected useful life of the asset. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

9.2 Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)

9.3 There is no requirement to charge MRP where the Council's Capital Financing Requirement (the underlying need for the Council to borrow) is nil or negative at the end of the preceding financial year. As the Council is currently debt free there is therefore no requirement to charge MRP. Should the Council's debt free status change the Council will implement the Minimum Revenue Provision (MRP) in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.