

**BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER:** **J232**

**TO:** OVERVIEW AND SCRUTINY  
(STEWARDSHIP) COMMITTEE

**DATE OF MEETING:** 23 March 2010

**TREASURY MANAGEMENT STRATEGY 2010/11**

**1. PURPOSE OF REPORT**

- 1.1 To present the proposed treasury management strategy, including the annual investment strategy for surplus funds, for the financial year 2010/11.
- 1.2 One of the key new recommendations in the revised guidance, the CIPFA Treasury Management in the Public Services: Code of Practice, is that the Treasury Management Strategy should be subject to scrutiny before it is recommended to Council, which will be undertaken by this Committee.

**2. RECOMMENDATIONS**

- 2.1 That the 2009 CIPFA Treasury Management in the Public Services: Code of Practice be adopted.
- 2.2 That the Council's Constitution be updated to reflect the changes to financial regulations as set out in Appendix 3, including the nomination of the Overview and Scrutiny (Stewardship) Committee to be responsible for the effective scrutiny of the Council's Treasury Management Strategy and Policies.
- 2.3 That the proposed Treasury Management Strategy for 2010/11, including the Policy Statement and the annual investment strategy as set out in Appendix 2, be approved.

The Committee is asked to make the above recommendations to Strategy Committee.

**3. FINANCIAL IMPLICATIONS**

- 3.1 Income generated from the investment of surplus funds is an important element of the Council's budget. The expected income in 2009/10 is likely to be about £65k compared to £650k in 2008/09. This has been as a result of the dramatic drop in interest rates and the trend is likely to continue through 2010/11.
- 3.2 It is estimated that there will be up to £9m invested at any one time by the Council and any loss of investment could have a significant adverse impact on the Council's finances.

3.3 The revenue cost of borrowing requirements in relation to the capital programme in 2010/11 will be minimised by borrowing on the most beneficial basis at the most appropriate time of the year, based on advice from our Treasury Advisors. The General Fund budget for the year of £289k, which covers the minimum revenue provision for principal repayments and interest, should be sufficient to meet these costs.

4. **RISK MANAGEMENT**

4.1 This report is most closely linked with Significant Business Risk No. 7 – Financial, Performance & Risk Management. The following risks are associated with this strategy:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Loss of investment	Low	Critical	Strict lending criteria for highly credit rated institutions.
Poor return on investments	High	Marginal	Focus is on security and liquidity, therefore, careful cashflow management and budget monitoring in accordance with the Strategy, is required.
Liquidity problems	Unlikely	Marginal	Careful and regular cashflow monitoring to ensure this does not arise.
Higher than expected borrowing costs	Low	Marginal	Benchmark is to borrow from the Public Works Loan Board whose rates are very low and can be on a fixed or variable basis. Alternative of using internal surplus funds temporarily.

5. **KEY INFORMATION**

**Background**

5.1 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. In addition, revised Government guidance on local authority investments has been issued that will apply from April 2010 onwards.

5.2 The revised Code requires that Councils make a number of changes to their treasury management arrangements, including:

- (a) Preparing an additional report to Council, at the mid-year, on Treasury Management policies, practices and activities.
- (b) Overview and Scrutiny (Stewardship) Committee should receive quarterly reports on Treasury Management activities.
- (c) Overview and Scrutiny (Stewardship) Committee should scrutinise the Treasury Management Strategy in advance of Council approval.

- 5.3 Both the Government's existing 2004 guidance and the proposed 2010 guidance require the Council to approve an investment strategy before the start of each financial year. Given that the proposed strategy is very largely a continuation of the one adopted for 2009/10, the external auditors have agreed that approval of the 2010/11 strategy in April is acceptable. This report, therefore, fulfils the Council's obligations under the draft revised Government guidance.
- 5.4 The Council approved prudential indicators under the Prudential Code for Capital Finance as part of the Budget agreed on the 23 February 2010. These cover key aspects of our treasury management operations, namely total borrowing limits for the next 3 years and limits on exposure to fixed and variable interest rates in relation to borrowing.
- 5.5 The Treasury Management Strategy operates within the framework of the Government's Prudential Capital Finance system. The current strategy has been very carefully reviewed and actively monitored since the banking crisis unfolded during 2008. The proposed strategy for 2010/11 sees a continuation of the very cautious and risk-averse approach that has been applied during 2009/10.

### **2010/11 Strategy**

- 5.6 Key aspects of the Council's treasury management operations in terms of the annual investment strategy proposed for 2010/11 are set out in the supporting appendices. Factors affecting the strategy are detailed in Appendix 1 and the proposed strategy for the year is set out in Appendix 2.
- 5.7 The 2010/11 strategy reflects the continuing difficulties affecting the banking sector and other financial institutions. The strategy focuses on the effective management and control of risk with priority given to security and liquidity when investing funds. Investment returns remain an important but secondary consideration.
- 5.8 The Council has consulted with its treasury advisors regarding the recent speculations and concerns over the reduction of UK's sovereign credit rating. As the impact of any such event would be of national and even global levels, governmental preventative actions are considered highly likely. This area and the impact of such an event on the Council's investments will obviously be very closely monitored and reflected in its treasury management activities.
- 5.9 The overall focus of the proposed investment strategy for 2010/11 continues to be:
- A very prudent and cautious approach, with security of the investment being paramount
  - A reflection of developments on Government guarantees and the 'bail-out' package
  - The removal of non-credited rated Building Societies from the Council's overall investment criteria
- 5.10 In terms of further details on this and the main elements of the 2010/11 investment strategy in Appendix 2, key aspects are summarised in the table below, which are primarily a continuation of the strategy approved by Members for 2009/10:

Aspect	2010/11 Strategy
Specified Investments – High credit rated institutions	<ul style="list-style-type: none"> <li>• No change has been made to the criteria relating to credit ratings and these remain very high for <b>UK banks</b> to reflect the continuing state and other guarantees/support</li> <li>• In relation to <b>Foreign banks</b>, credit ratings continue to be of a higher requirement than for UK banks</li> <li>• Very High short and long-term credit ratings for <b>Building Societies</b> are also retained as detailed in the 2009/10 Strategy, although this will provide limited scope for investing with Building Societies</li> <li>• A minor change has been made on investment periods to show the maximum period for investment in months and days to ensure clarity.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• The maximum investment limit per institution remains at £2m for all specified investments, other than there being no limit on the amount invested with the Government's Debt Management Agency Deposit Facility (DMADF).</li> </ul>
Non-specified investments (Institutions not meeting the above high credit ratings or investments of over 1 year)	<ul style="list-style-type: none"> <li>• As in 2009/10, no investments will be made with any non-credit rated Building Societies</li> <li>• The only non-specified investment (for less than a year) will continue to be in an instant access callable account with its own Bankers, Co-operative Bank. This is non-specified as the Bank does not quite meet the Council's high credit rating criteria, which is due in part to the merger of the Co-operative Bank with the Britannia Building Society</li> <li>• Any investment over 1 year must be classified as a non-specified investment. This would only be undertaken with institutions satisfying the high credit ratings that have been set for specified investments.</li> </ul>

5.11 A list of the Banks and Building Societies that the Council would currently (as at end of February 2010) be able to lend to is provided in Appendix 4. This, of course, will change throughout the year as Fitch and the other rating agencies credit ratings are continuously reviewed and additional information is provided by our Treasury advisers. A very small number of the banks listed are interested in taking sterling deposits of the size and periods Babergh have available and there remains limited scope for placing investments in the Building Society sector.

- 5.12 The other key aspect of the investment strategy is the period for which an investment will be made. The criteria are set out in Appendix 2. In essence, longer-investments will only be made with the highest rated institutions and/or where Government guarantees exist for that period. A short-term investment strategy will, however, remain the Council's core approach and longer-term deposits will only be undertaken should this be seen as secure. With interest rates continuing at very low levels throughout the year, this is unlikely to be a scenario that arises in 2010/11.
- 5.13 In terms of prudential borrowing, there are anticipated requirements of around £0.8m in 2010/11 in relation to the General Fund capital programme although that would be affected by capital expenditure carried forward from 2009/10. In addition, there is an HRA supported borrowing allocation of £550K. As with 2009/10, officers will take advice on the optimum time to undertake this borrowing in terms of type of borrowing and over what period or whether it is viable to continue to use internal surplus funds.
- 5.14 The contract for external treasury management advisors is currently being retendered, including the possibility of a joint contract with Mid Suffolk DC. Appropriate procurement actions are being taken to ensure a suitable advisory service is appointed.

## 6. **APPENDICES**

- (1) Key Factors and Information on Treasury Management Activities
- (2) Treasury Management Strategy 2010/11
- (3) Amendments to Financial Regulations within the Constitution
- (4) Institutions meeting high credit ratings criteria (as at end of February 2010)

## 7. **BACKGROUND PAPERS REFERRED TO:**

CIPFA Treasury Management in the Public Services: Code of Practice

**CONTACT:** Barry Hunter, Director of Finance                      **E-MAIL:** barry.hunter@babbergh.gov.uk  
Homira Javadi, Corporate Finance Manager                      homira.javadi@babbergh.gov.uk

**Key Factors and Information on Treasury Management Activities**

**Factors affecting the Strategy**

**1 Interest Rates**

- 1.1 The UK is currently in the longest, if not the deepest recession since World War Two. Bank failures, combined with rising energy and commodity prices, caused a sharp reduction in consumer and business spending in 2008, with a resulting negative impact on GDP growth and employment. Financial institutions exacerbated the recession by restricting credit in an effort to repair their own balance sheets, although extensive government and central bank intervention has supported economic activity to an extent.
- 1.2 However, the discretionary fiscal stimulus, bank rescues, increased benefit payments and reduced tax revenues have caused a significant deterioration in the national finances. Public sector net borrowing is expected to exceed £175bn in 2009/10, and remain high in subsequent years, pushing the national debt towards 100% of GDP. Whatever the result of the 2010 general election, the next government is expected to cut spending and raise taxes, slowing the country's economic recovery.
- 1.3 Although the UK economy is expected to have returned to growth in the last quarter of 2009, restricted bank lending and fiscal tightening mean it is unlikely that the absolute level of GDP will return to pre-recession levels in the near term. The Bank of England recognises that simultaneous fiscal and monetary tightening could endanger the economy's recovery, and it is therefore likely to exercise caution before raising interest rates in the absence of obvious inflationary pressures.
- 1.4 The scope for short-term interest rate rises in 2010/11 is therefore limited. Bank Rate could remain at 0.5% for the whole of 2010, increasing quite rapidly thereafter, but remaining below pre-recession levels into 2012. Money market rates, such as LIBOR, will rise earlier in anticipation of monetary tightening, but they are also likely to remain close to record lows for a considerable period. Long-term PWLB rates are expected to rise slowly due to a large increase in the supply of gilts over the next few years, but this will be mostly offset by the demand created by new liquidity requirements for financial institutions.

**2 Investments**

- 2.1 The Government's guidance on Local Government Investments under the Local Government Act 2003 emphasises that priority be given to security and liquidity, rather than yield. However, that does not mean that authorities should ignore yield. It will be reasonable to seek the highest rate of interest consistent with the proper levels of security and liquidity. This has always been this Council's approach, in line with the CIPFA Code of Practice on Treasury Management. In managing the Council's Treasury Management activities we have placed greater emphasis on security than ever before by reviewing and revising our investment decision-making and operational processes, set out in our Treasury Management Practices (TMPs) to safeguard the Council's financial assets.

- 2.2 This approach will continue to be applied in determining the amounts available for investment and the periods of time for which investments can be made. This will enable the authority to continue to achieve the key priorities of security and liquidity.
- 2.3 Detailed cash flow projections are maintained by officers, taking into account all factors affecting surplus funds that are, potentially, available for investment. This means that working capital requirements can be ascertained with a reasonable degree of certainty.
- 2.4 The Council's proposed counterparty list for 2010/11 is set out in Appendix 4. This lists institutions currently meeting "high credit ratings" criteria for approval. The counterparty list will be updated throughout the year as credit ratings agencies and a range of non-credit rating information including generally available market information is reviewed.

### **3 Borrowing**

- 3.1 The Prudential Code states that a prudent financial strategy (i.e. not borrowing to fund revenue expenditure or to invest) is one where in the medium term net borrowing is only to be used for capital purposes. This is applied to the Council's strategy.
- 3.2 The Council has undertaken a fundamental review of its borrowing during the year. There are relatively low investment balances estimated for 2010/11 and a core level of surplus funds is required to manage the Council's day-to-day cash flow. With fixed and variable borrowing rates lower than in recent years, and fixed rates forecast to rise by at least 0.5% over the next few years, there may be some long-term value in borrowing at a fixed rate soon. The Council's Treasury advisors recommend following the low risk strategy and arranging additional debt at long-term fixed rates.
- 3.3 Prudential Indicators were reported to Council in the Budget Book on 23<sup>rd</sup> February. The Operational Boundary for External Debt and the Authorised Limits for External Debt within the Prudential Indicators allow for additional borrowing and for any changes that may occur with the preparation of the Statement of Accounts under International Financial Reporting Standards (IFRS).

### **4 Risk Benchmarking**

- 4.1 The revised code requires the Council to consider the use of benchmarking to support the Treasury Management activity and this is addressed in TMPs.
- 4.2 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the mid year or annual report.

**Treasury Management Strategy for 2010/11**

**Treasury Management Policy Statement**

1. Babergh District Council defines its treasury management activities as: “the management of the organisation’s investments and cash flows, it’s banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks.”
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of the treasury management activities as defined above will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council, arising from those activities.
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.

**Background**

4. Treasury Management is strictly regulated by statutory requirements. The professional code of practice has been revised and the Council is to adopt the CIPFA Treasury Management in the Public Services: Code of Practice, November 2009.
5. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the Prudential Code and set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
6. The Act also requires the Council to set out its treasury strategy for borrowing and investment.

**Investment of Surplus Funds**

7. This Investment Strategy states which instruments the Council may use for investment purposes, making a distinction between Specified and Non-Specified Investments. High credit ratings in relation to specified investments are also set out.
8. In addition, the strategy determines limits in respect of the nature and overall level of non-specified investments and, within that limit, upper limits to be held in each category of non-specified investment.
9. The overall objective of the Council’s investment strategy is to ensure prudent investment of surplus funds. The Council’s investment priorities are primarily the security of capital and liquidity of investments and, within those priorities, a secondary criteria is to secure optimum performance in terms of the highest rate of return, or yield.

- 10 Investment options for 2010/11 will be monitored and carefully considered in conjunction with our Treasury advisors - maximum levels of surplus funds are likely to be in the range of £6-9M but will obviously be lower than this at certain times during the year and depending on whether any of these internal funds are used for financing capital expenditure borrowing requirements.
11. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

### **Specified Investments**

12. Specified investments are those expected to offer high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as follows:
  - a. The investment is denominated in Sterling and all payments or repayments are payable only in sterling
  - b. The investment is not a long-term investment (i.e. due to be repaid within 12 months of the arrangement or one which the Council may require to be repaid within that period)
  - c. The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended]; and
  - d. Either of the following conditions is met:
    - i. The investment is with the United Kingdom Government or a Local Authority in England and Wales, or a similar body in Scotland or Northern Ireland or a Parish or Community Council
    - ii. The investment is made with a body or in an investment scheme of "high credit quality". This is assessed using information on credit ratings agencies and a range of non-credit rating information including generally available market information. Credit ratings are those awarded by a credit rating agency either Standard or Poor's, Moody's Investment Services Ltd or Fitch Rating Ltd.
13. The Council defines the following as being of "high credit quality" for making specified investments, subject to the monetary and time limits shown in table 1 below.
  - a. Money Market Funds (£2m limit, instant access)
  - b. The Government's Debt Management Agency Deposit Facility (no limit)
  - c. Short Term cash deposits (with highly credit rated institutions)
  - d. Callable cash deposits (with highly credit rated institutions)
  - e. Reserve Account(s)
  - f. Forward deals (provided the maturity date is < 1 year or 365 days (from when the investment was made)
  - g. Certificates of Deposit (with maturity dates of <1 year, or 365 days)
  - h. UK Government Bonds (with maturity dates of < 1 year, or 365 days)
  - i. Local authorities

The Council considers a high credit rating for Money Market Funds (13a above) to be those with a long term Fitch Rating of AAA (or the equivalent highest rating from Standard and Poor's or Moody's)

14. For the purposes of 13 b to i above, the Council considers a high credit rating for these to be as follows. Decisions are made on the basis of the lowest rating:

**Table 1 Specified Investments**

Form of investment	Minimum Credit Rating Criteria		
	Fitch	Standard & Poor's	Moody's
Deposits - UK Banks  (max. sum per lender £2m)	Short term F1 Long term A Individual B Support 2	Short term A1 Long term A	Short term P1 Long term A2 BFSR = C (Bank Financial Strength Rating)
Deposits - Building Societies  (max. sum per lender £2m)	Short term F1 Long term A- Individual B/C Support 3	Short term A1 Long term A-	Short term P1 Long term A3 BFSR = C-
Deposits - Foreign Banks  (max. sum per lender £2m)	Short term F1+ Long term AA- Individual B Support 2	Short term A1+ Long term AA-	Short term P1 Long term Aa3 BFSR = C

Note: Banks within the same group ownership are treated as one bank for limit purposes. Sovereign country ratings will also be taken into account in undertaking any deposits. Individual and support ratings are secondary criteria.

15. In addition to applying investment limits to individual institutions, clear country and sector limits should also be set. The following table summarises the various limits that should apply:

Sector Limits	Maximum limit of total investments
UK Banks	70%
UK Building Societies	70%
Deposits - Foreign Banks inc. Abbey	40%
Money Market Funds	£2m
Local Authorities	70%
Foreign countries with a sovereign rating of 'AAA' (Blanket guarantees)	£2m (per country)

16. Since the 'banking crisis' there have been number of developments which require separate consideration and the following additional criteria are proposed for specified investments to which the £2m limit per counterparty will also apply:-

## **‘Nationalised’ UK banks**

These are no longer separate institutions in their own right e.g. Northern Rock and the deposits made with them are effectively being made to the Government. They are recipients of an F1+ short-term rating and support rating of 1, which are the highest ratings possible.

## **The UK banking system support package**

The UK Government has not given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system. In October 2008 an initial £500bn support package was provided to eight named banks (listed below). Known as the credit guarantee scheme, this closed for new issues on 28 February 2010. Most of the institutions listed below currently meet the high credit rating criteria set out in section 14:

- a. Bank of Scotland\*
- b. Barclays
- c. HSBC
- d. Lloyds TSB\*
- e. Nationwide Building Society
- f. Royal Bank of Scotland (RBS)\*
- g. Santander UK plc (formerly Abbey National plc)\*
- h. Standard Chartered

(\* Although these institutions do not meet the high credit rating criteria in section 14, they are to be treated by the Council as “high credit quality” as defined in sections 12 and 13. These institutions, however, will be regarded as providing a potential “secondary” alternative to investments in the other institutions listed and those that meet the high credit ratings set out in section 14 and they will only be used following very careful assessment and approval by the Director of Finance, based on latest information and advice from the Council’s Treasury Management advisors including sovereign country ratings).

## **Credit Ratings**

17. Security of investments is currently evidenced by the application of a minimum credit quality criterion to investment counterparties. Credit ratings are obtained and monitored by the Council’s treasury advisers who will notify changes in ratings as they occur. Where a country or institution has its credit rating downgraded so that it fails to meet the minimum criteria then:
  - No new investments will be made,
  - Any existing investments that can be recalled at no cost will be recalled
  - Full consideration will be given to the recall of any other existing investments

Where a credit rating agency announces that it is actively reviewing an organisation’s credit ratings with a view to downgrading it so that it is likely to fall below the minimum criteria, then no further investments will be made until the outcome of the review is announced. This specifically refers to “negative watch” and “review for possible downgrade”, but not to “negative outlook”.

18. In terms of maximum period for individual investments, the following will apply and regard will be had to any time-limited Government guarantees. The highest primary criteria refer to security and liquidity, with return on investment forming the secondary criteria.

Credit ratings	Period
Highest primary criteria, which covers long-term and short-term ratings. Very strong secondary criteria.	Up to 1 year, maximum of 365 days
As above, but with slightly lower primary or secondary criteria. Includes other local authorities	Up to 6 months or up to a maximum of 188 days to allow for maturity of loans extending over a weekend
Minimum primary and/or secondary criteria	Primarily for 3 months or up to a maximum of 95 days to allow for maturity of loans extending over a weekend

### Non-Specified Investments

19. Any investment that does not meet the criteria for Specified Investments is deemed to be a Non-Specified Investment.
20. Non-specified Investments, therefore, imply higher risk and relate to:
- i. Any investment with an institution that does not meet the high credit rating criteria set by the Council, which includes non-credit rated institutions, including a number of Building Societies
  - ii. Investments made for periods greater than 1 year, which are considered less liquid as the cash is not quickly realisable.
21. The Government has always recognised that, provided precise procedures are in place to determine and assess suitable institutions for non-specified investments, they should not be considered less secure than specified investments. In addition, Building Societies may not have a credit rating but could still be deemed to be highly creditworthy by virtue of the stringent regulatory regime in which they operate.
22. It is clear, therefore, from the above that the intention is not to discourage the use of Non-Specified Investments, but to make sure that they are properly considered and that there are appropriate procedures in place for risk management.
23. Following very careful consideration, it has been concluded that the Council should not undertake any non-specified investments other than:

- iii. In an instant access callable account with its own Bankers, i.e. Co-operative Bank, even though they do not quite meet the Council's high credit rating criteria
  - iv. Investments of over 1 year in accordance with the high credit rating criteria set out for specified investments in section 12
24. The Council is required to set limits for each type of non-specified investment, expressed as either a sum of money or as a percentage of total investments. This can range from 0 to 100% and is set out below. Advice on any investments over 1 year will be sought from our treasury advisors:

<b>Instrument</b>	<b>Limit</b>
Co- operative Bank callable account	£2m
Term Deposits (maturity date > 1 year)	25%
Callable Deposits (maturity date > 1 year)	£1m
Forward Deals (maturity > 1 year)	£1m

### **Liquidity of Investments (both specified and non-specified)**

25. The Secretary of State recommends that the Investment Strategy sets out the procedures for determining the maximum periods for which funds may be prudently committed.
26. The level of funds to be committed will be determined based on the criteria set out in section 14, cash flow forecasts and the identification of core-cash. At a more detailed level, the appropriate period of investing will be based on on-going advice from the Council's treasury advisers.

### **Borrowing**

27. As the Council's net external borrowing does not exceed the total Capital Financing Requirement, we are in a position to borrow if deemed necessary
28. The Council has an asset base of £230m and can borrow to maintain that and provide new or improved facilities, subject to affordability.
29. Under the Prudential Code, there is a requirement to set a Prudential Indicator for an authorised limit for external debt. This limit has been set at £9.9m for 2010/11, (increasing to £11m in 2011/12 and £11.4m in 2012/13).
30. Additionally, there is an 'operational boundary' below this – this has been set at £5.2m for 2010/11 (6.5m for 2011/12 and £7.2m for 2012/13). Details were set out and attached to paper J194 as part of the budget setting process for 2010/11.
31. The authorised limits for borrowing are consistent with current commitments, existing plans and the proposals in the budget report for capital expenditure and financing. The Prudential Indicators for each year reflect the current outlook for borrowing and are set as maximum limits rather than actual borrowing levels.

## **Member and Officer Training**

32. The Council recognises the importance of ensuring that all staff and members responsible for the delivery and scrutiny of treasury management function are appropriately skilled and trained to undertake their duties. All training requirements are addressed through a range of internally or externally provided sessions appropriate to the skill/ knowledge gaps and responsibility levels.

## **Treasury Management Advisors**

33. The Council's treasury management advisors are Sterling Consultancy Services whose contract is due for renewal in 2010/11 and is currently being re-tendered following the established procurement process. The treasury advisor service is subject to regular review and the new contract will ensure that treasury management advisors comply with the requirements of the Treasury Management Strategy and TMPs' Use of External Service Providers.
34. Whilst the advisors provide support to the treasury function, under current market rules and the CIPFA code of Practice the final decision on treasury matters remains with the Council.
35. The treasury advisor service includes a range of services:
- Technical support on treasury matters, capital finance issues and drafting the Treasury Management Strategy
  - Economic and interest rate analysis
  - Debt services including advice on borrowing
  - Credit ratings/generic market information comprising the three main credit rating agencies, generally available market information and information on government support for banks and the credit ratings of that government support.

**Treasury Management Clauses to form part of Financial Regulations / Constitution**

1. The Council puts in place the following for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to the risk management of its treasury management activities.
  - Appropriate Treasury Management Practices (TMPs), setting out the manner in which the authority will seek to achieve those policies and objectives, and detailing how to manage and control those activities.
2. The Council will receive reports on its Treasury Management activities, including the following as a minimum:
  - An updated annual strategy and policy before the start of each financial year;
  - A mid year review;
  - An annual report after the close of the financial year.
3. The authority nominates the Overview and Scrutiny (Stewardship) Committee to be responsible for the effective scrutiny of its Treasury Management Strategy and Policies.
4. The Council delegates responsibility for the implementation, execution and administration of its Treasury Management activities to the Director of Finance, who will act in accordance with the Council's policy statement, Treasury Management Practices (TMPs) and CIPFA's Standard of Professional Practice on Treasury Management.

**Institutions meeting high credit ratings criteria (as at end of February 2010)**

**UK Banks**

**(Including Government 'bail out' package)**

Barclays  
HSBC

**Lloyds Group**

Bank of Scotland PLC\*  
Lloyds TSB Bank\*

**RBS Group**

Royal Bank of Scotland\*  
National Westminster Bank  
Ulster Bank Ltd

Standard Chartered

**'Nationalised' Banks**

Northern Rock

**Foreign Banks**

**Australia**

National Australia Bank  
Australia & New Zealand Banking Group  
Commonwealth Bank of Australia  
Westpac Banking Corporation

**Canada**

Bank of Nova Scotia  
Royal Bank of Canada  
Toronto-Dominion Bank

**France**

BNP Paribas  
**Group Credit Agricole**  
Credit Agricole

**Italy**

Intesa Sanpaolo

**Netherlands**

Rabobank Nederland NV

**Singapore**

Development Bank of Singapore

## **Spain**

Banco Bilbao Vizcaya Argentaria  
Caja de Ahorros y Pensiones de Barcelona

### **Santander Group\***

Santander UK plc  
Banco Santander  
Banco Santander Totta

## **Sweden**

### **Nordea Group**

Nordea Bank AB  
Nordea Bank Finland Plc  
Svenska Handelsbanken

## **USA**

Bank of New York Mellon  
J P Morgan Chase Bank NA

## **UK Building Societies**

Leeds  
Nationwide

\* Note – these institutions will be regarded as a “secondary” alternative as described in section 16 of the Treasury Management Strategy for 2010/11. In addition, high regard will be given to country sovereign credit ratings before any investments are made.