



Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 13th February 2009

Subject: TREASURY MANAGEMENT STRATEGY 2009/10

Electoral Wards Affected:

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

no

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

1. This report sets out for Members' approval the Treasury Management Strategy for 2009/10, and also provides an update on the implementation of the 2008/09 strategy.
2. The Council's level of net external debt is anticipated to be £1,408m by 31/03/09, in line with expectations in November 2008. Revenue savings of £5.4m from treasury management activity during the year have been achieved, including £1.2m assumed in the budget.
3. Loans of £15m have been borrowed in advance of the 2009/10 borrowing requirement, in order to lock in long term borrowing at low rates currently available, and maximise investment returns until the funds are needed.
4. The authorised limit for borrowing has been increased by £70m in 2008/09, £130m in 2009/10, £180m 2010/11 and £250m in 2011/12. No change is proposed to the operational boundary in 2008/09. The operational boundary for borrowing has been increased by £80m in 2009/10, £100m in 2010/11 and £170m in 2011/102. These increases are proposed to reflect increased borrowing requirements of the capital programme over the next three years and to provide sufficient headroom to undertake rescheduling of long term debt. Both the authorised limit and operational boundary for other long term liabilities have also been increased by £340m from 2009/10 onwards to reflect the PFI adjustment to the Council's balance sheet.
5. Members are asked to reaffirm the Treasury Management Policy statement and in particular the amendments made to Section 7 "Approved Instruments and Organisations for Investments". This section has been amended to show that financial institutions formally regarded as excellent (red colour) have been further divided into three colours (red, orange and purple) to reflect the length of time over one year that amounts can be placed with different financial institutions.

1 Purpose Of This Report

- 1.1 This report sets out for approval by Members the Treasury Management Strategy for 2009/10 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2008/09.

2 Background Information

- 2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 2.2 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators. Council must similarly set any in year revision of these limits. In order to comply with this legal requirement recommendations 7.2, 7.3, and 7.4 of this report are not eligible for call-in.
- 2.3 The Code of Practice requires that policy statements are prepared for approval by the Council at least twice a year. The Policy and Strategy Statement for 2008/09 was approved by full Council on 20th February 2008, and a review of the 2008/09 strategy was considered by Executive Board on 5th November 2008.

3 Main Issues

3.1 Review of Strategy and Borrowing Limits 2008/09

- 3.1.1 The current debt forecasts are given in Table 1 below, which shows that net external borrowing is now expected to be £1,408m by the end of 2008/09. This is in line with expectations in November 2008.

Table 1

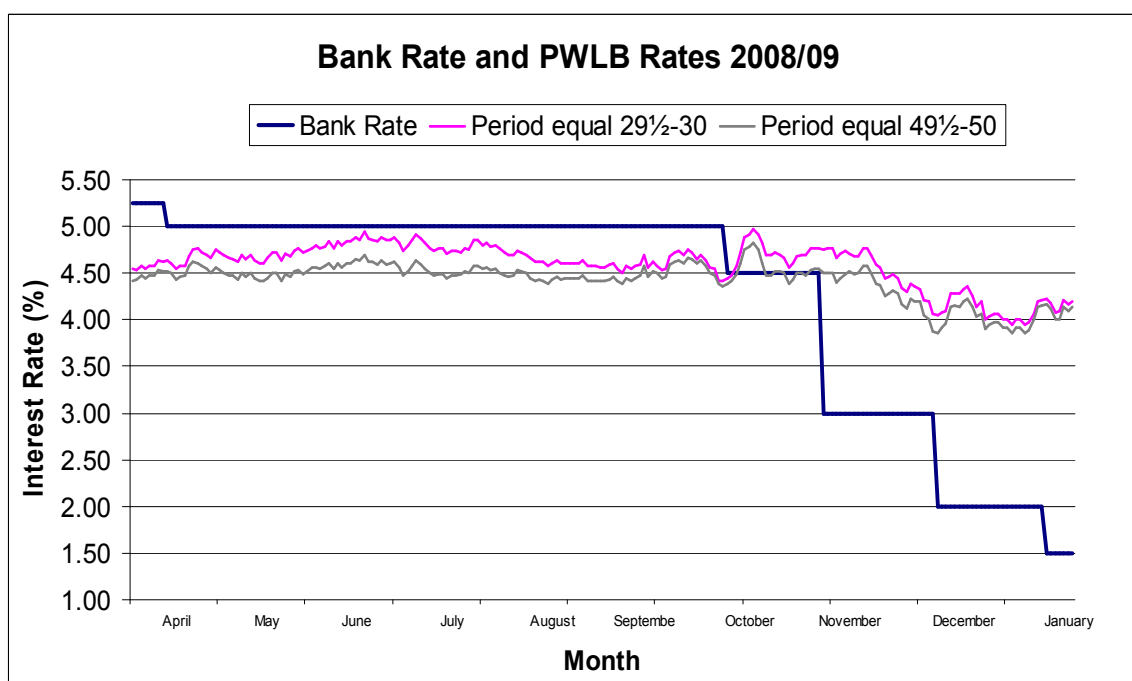
| | 2008/09 Feb 08 Report | 2008/09 Nov 08 Report | 2008/09 This Report |
|--|--------------------------------------|--------------------------------------|------------------------------------|
| | £m | £m | £m |
| ANALYSIS OF BORROWING 2008/09 | | | |
| Net Borrowing at 1 April | 1,312 | 1,222 | 1,222 |
| New Borrowing for the Capital Programme – Non HRA | 128 | 128 | 128 |
| New Borrowing for the Capital Programme – HRA | 35 | 32 | 33 |
| Debt redemption costs charged to Revenue (Incl HRA) | (24) | (24) | (24) |
| Reduced/(Increased) level of Revenue Balances | (1) | 49 | 49 |
| Net Borrowing at 31 March* | 1,450 | 1,407 | 1,408 |
| Capital Financing Requirement | | | 1,564 |
| * Comprised as follows | | | |
| Long term Fixed borrowing | 1,242 | 1,368 | 1,383 |
| Variable (less than 1 Year) | 140 | 40 | 40 |
| New Borrowing | 68 | 90 | 31 |
| Short term Borrowing | 0 | 0 | 7 |
| Total External Borrowing | 1,450 | 1,498 | 1,461 |
| Less Investments | 0 | 91 | 53 |
| Net External Borrowing | 1,450 | 1,407 | 1,408 |
| % borrowing funded by short term and variable rate loans | 14% | 9% | 5% |

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 3.1.2 The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slowing growth to outright recession. After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared that the storm had been weathered. The economic data had been indicating a slowing economy for some time but it was not sufficiently weak to force the MPC into cutting the bank rate.
- 3.1.3 However in mid September the American Investment bank Lehman Brothers was allowed to fail and the outlook changed as credit conditions deteriorated. The world banking system came near to collapse and governments were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running close to 5%, became yesterday's story and fears of recession drove interest rate sentiment and policy.
- 3.1.4 After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support. Eventually even the Asian 'Tiger' economies were affected, including India and China, and it became clear that the crisis had become a global one and no country was insulated from it.
- 3.1.5 It was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 0.5% on 8th October in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and UK interest rates were subsequently slashed by 1.5% on 6th November and by a further 1.0% on 4th December.
- 3.1.6 The domestic housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. Both house sales and prices continue to drop sharply. At the same time Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit therefore the Government abandoned its 'golden rule' (Borrowing should be less than 40% of GDP). The pre Budget Report on 14th November revealed the Government's plans for a huge increase in Government borrowing over the coming years as a result of falling tax revenues, tax cuts and short term increases in Government expenditure designed to help stimulate economic growth to counter the recession.
- 3.1.7 U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.
- 3.1.8 The levels of anxiety within the banks have been reflected in the LIBOR (this is the London Inter Bank Offer Rate – the rate at which banks will lend to one another) spread over Bank Rate, which has been of particular concern in 2008/9. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR has been substantially higher than the Bank Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Bank Rate and it has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi-nationalised clearing banks has had considerable impact in enforcing reductions to borrowings pro-rata to the 1.5% Bank Rate cut in November.

- 3.1.9 Further deterioration in the banking sector's profitability was highlighted in January when The Royal Bank of Scotland announced anticipated record corporate losses for 2008 of £28bn. This resulted in further share price falls in the UK and abroad. The Government has now announced measures to kick start lending on both residential and commercial fronts. These measures including allowing the banks to swap corporate loans for Government gilts, banks to pay an insurance fee to the government on loans that default in return for the taxpayer bearing some of the loss and allowing the nationalised Northern Rock to abandon its policy of reducing its loan book. These are all measures to ensure that the banks stop their de-leveraging and re-introduce credit back into the market.
- 3.1.10 The bank rate had previously peaked at 5.75% before moving sharply down to its current record low level of 1.5%. Interest rate movements during the year are shown in Chart 1 below.

Chart 1



- 3.1.11 Since the November half year report both short and long term rates have fallen dramatically in response to the deteriorating economic outlook. The Council's treasury advisors' latest forecasts for Quarter 1 2009 are that the 50 year PWLB rate will be around 3.85% and the 25 Year PWLB around 4.0%.
- 3.1.12 The fall in interest rates coupled with lower differential early repayment rates of PWLB loans has limited the ability of the Council to restructure debt. Members will recall from previous Treasury Management reports that these changes were introduced in November 2007.

3.1.13 To meet the borrowing requirement for 2008/09, new loans of £95m were taken in 2007/08. Whilst there is still a borrowing requirement of £31m, due to anticipated capital programme slippage and further reductions expected in interest rates no further long term borrowing is expected to be taken in 2008/09. If funds are required money will be borrowed short term (where the lowest rates are available) and locked in at long term rates when it is prudent.

Table 2

| Rescheduling 2008/09 | | | | | | | | |
|----------------------|-------------|-------------------|---------------|--------------------------|---------------------------|-------------|--------------|-------------------|
| Premature Repayments | | | | | New Replacement Borrowing | | | |
| Date | Amount (£m) | Original Rate (%) | Discount Rate | Premium/ (Discount) (£m) | Date | Amount (£m) | Term (Years) | Interest Rate (%) |
| PWLB | | | | | PWLB | | | |
| | | | | | 09/04/08 | 30 | 5 | 4.23 |
| Sub Total | 0 | | | 0 | | 30 | | |
| LOBOs (Call date) | | | | | LOBOs | | | |
| 04/04/08 | 5 | 4.00 | | | 07/05/08 | 10 | 70 | 4.19 |
| 02/05/08 | 10 | 3.96 | | | 14/05/08 | 10 | 70 | 4.10 |
| 12/05/08 | 10 | 3.99 | | | | | | |
| Sub Total | 25 | | | 0 | | 20 | | |
| Total | 25 | | | 0 | | 50 | | |

3.1.14 The opportunity to borrow £15m of the 2009/10 funding requirement was taken, enabling funds to be invested out until required. In doing so the Council was able to take advantage of higher interest rates on deposits as a result of the credit crunch that were expected to be reduced. Details are shown in Table 3.

Table 3

| Pre Funding for 2009/10 Requirement | | | | |
|-------------------------------------|--------|-------------|--------------|-------------------|
| Date | Source | Amount (£m) | Term (Years) | Interest Rate (%) |
| 12/11/08 | PWLB | 15 | 4.5 | 3.59 |

3.1.15 Treasury management activity overall in 2008/09 has generated savings of £5.4m which includes £1.2m already assumed in the budget. A breakdown of the full £5.4m savings are shown in Table 4.

Table 4

| Analysis of savings | £m |
|---|------------|
| LOBO Debt Rescheduling 2007/08 impact on 2008/09 | 1.4 |
| 2007/08 Borrowing in advance of 2008/09 requirement | 0.7 |
| Borrowing in advance of 2009/10 requirement | 0.2 |
| Additional interest on revenue balances | 2.3 |
| Reduction in borrowing costs/need | 0.8 |
| Total Savings* | 5.4 |

*Includes £1.2m included in the budget

3.2 Interest Rate Performance

- 3.2.1 The average rate of interest paid on the Council's external debt for 2007/08 was 4.51% as reported in the Annual Treasury Management Report 2007/08 to Executive Board on 16th July 2008. This rate is now forecast to fall to 4.45% for 2008/09. Chart 2 shows how the average external borrowing rate has fallen from 6.72% in 2002/03.

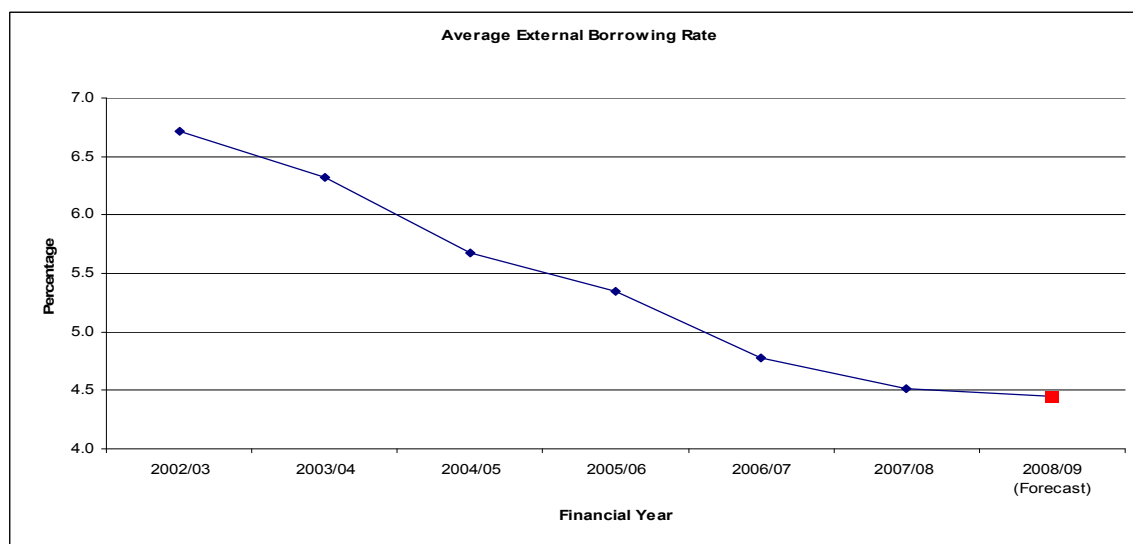


Chart 2

3.3 Strategy for 2009/10

- 3.3.1 Table 5 shows that net borrowing is expected to rise by £104m to £1,512m during the course of 2009/10 of which £15m was secured in 2008 and invested until required. The increase in the borrowing requirement is as a result of slippage of the 2008/09 capital programme and additional borrowing taken to replace falling capital receipts thereby maintaining major parts of the capital programme. Executive Board is asked to refer to the Capital Programme 2008 – 2012 Report presented elsewhere on this agenda for details of the capital programme.

Table 5

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|--|--------------|--------------|--------------|--------------|
| ANALYSIS OF BORROWING 2008/09 – 2011/12 | £m | £m | £m | £m |
| Net Borrowing at 1 April | 1,222 | 1,408 | 1,512 | 1,570 |
| New Borrowing for the Capital Programme – Non HRA | 128 | 98 | 76 | 88 |
| New Borrowing for the Capital Programme - HRA | 33 | 12 | 12 | 3 |
| Debt redemption costs charged to Revenue(Non HRA) | (24) | (26) | (29) | (31) |
| Reduced/(Increased) level of Revenue Balances | 49 | 20 | (1) | 0 |
| Net Borrowing at 31 March | 1,408 | 1,512 | 1,570 | 1,630 |
| * Comprised as follows | | | | |
| Long term borrowing Existing Fixed | 1,383 | 1,349 | 1,421 | 1,509 |
| Existing Variable (Less than 1yr) | 40 | 105 | 110 | 80 |
| New Borrowing | 31 | 77 | 58 | 60 |
| Short term Borrowing | 7 | 0 | 0 | 0 |
| Total External Borrowing | 1,461 | 1,531 | 1,589 | 1,649 |
| Less Investments | 53 | 19 | 19 | 19 |
| Net External Borrowing | 1,408 | 1,512 | 1,570 | 1,630 |
| % gross borrowing exposed to interest rate risk | 5% | 12% | 11% | 8% |

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

- 3.3.2 Bank rates are forecast to fall further to record lows of 0.5% or lower in 2009. The forecast is for the 50 year PWLB new borrowing rate to be around 3.80%. The 25 year PWLB rate is expected to be around 3.95%.
- 3.3.3 The expected fall in interest rates will focus any new borrowing in the very short periods. If and when very short term interest rates start to rise longer term borrowing will be locked in when prudent. Longer term debt will be taken with regard to the rate available and the Council's maturity profile.
- 3.3.4 The Director of Resources will continue to monitor market conditions so that debt rescheduling and interest savings can be made. However, the continuation of the current spread between new borrowing and rescheduling rates will severely affect the ability of the Council to reschedule PWLB loans and generate cash discounts and interest savings.

3.4 Borrowing Limits for 2008/09, 2009/10, 2010/11 and 2011/12

- 3.4.1 The Council is required to set its limits for external debt for 2008/09, 2009/10, 2010/11 and 2011/12 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits and other prudential indicators are detailed in Appendix A.
- 3.4.2 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. It is recommended that Council approve the following authorised limits for its gross external debt for the next three years. Council is also asked to delegate authority to the Director of Resources to make adjustments between the two separate limits provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change.
- 3.4.3 As part of the move towards International Financial Reporting Standards, CIPFA is currently proposing to account for PFI schemes under IFRIC 12 in 2009/10. This is likely to mean that all of the assets acquired under the council's PFI schemes will come onto the council's balance sheet in 2009/10, together with associated long-term liabilities. These long term liabilities will be included in the Capital Financing Requirement, and thus the 'Other Long Term Liabilities' element of the council's Authorised Limit and Operational Boundary will need to be amended to take account of this change in accounting practice. Based on the draft guidance available so far, it is estimated that an additional £340m of long term liabilities may need to be recognised. However, this figure may change once final guidance has been issued on the calculation of the amounts to be recognised.
- 3.4.4 The Authorised limit has been increased by £70m in 2008/09, £130m in 2009/10, £180m 2010/11 and £250m in 2011/12. These increases are proposed to reflect increased borrowing requirements of the capital programme over the next three years and to provide sufficient headroom to undertake rescheduling of long term debt. Other Long Term liabilities have been increased by £340m from 2009/10 onwards to reflect the PFI adjustment. The limits have been rolled forward into 2011/12 as outlined below:

Recommended: Authorised Limits as follows:

| Authorised Limit | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Borrowing | 1,720 | 1,780 | 1,830 | 1,900 |
| Other Long Term Liabilities | 40 | 380 | 380 | 380 |
| Total | 1,760 | 2,160 | 2,210 | 2,280 |

- 3.4.5 The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for ongoing monitoring of external debt, and may be breached temporarily due to unusual cash flow movements. This did not occur in 2008/09.
- 3.4.6 No change is proposed to the operational boundary in 2008/09. The operational boundary has been increased by £80m in 2009/10, £100m in 2010/11 and £170m in 2011/12. These increases are to reflect rescheduling headroom necessary to undertake rescheduling exercises and the increase in the capital programme requirements. Other long term liabilities have been increased by £340m from 2009/10 onwards to reflect PFI schemes adjustment. The limits have been rolled forward into 2011/12 as outlined below.
- 3.4.7 The Council is asked to approve the operational boundaries set out below, and to delegate authority to the Director of Resources to make adjustments between the two separate boundaries provided that the overall boundary remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change.

Recommended: Operational Boundaries as follows:

| Operational Boundary | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Borrowing | 1,530 | 1,640 | 1,690 | 1,760 |
| Other Long Term Liabilities | 30 | 370 | 370 | 370 |
| Total | 1,560 | 2,010 | 2,060 | 2,130 |

3.5 Treasury Management Indicators

- 3.5.1 The first prudential indicator in respect of treasury management is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This was adopted by the Council at the Executive Board meeting on the 13th March 2003.
- 3.5.2 The Council is required to set an upper limit on its fixed interest rate exposures for 2008/09, 2009/10, 2010/11 and 2011/12. This limit represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that a limit of 115% be set for each year.

Recommended: Upper limit on fixed interest rate exposures for 2008/09, 2009/10, 2010/11 and 2011/12 of 115%

3.5.3 The Council is required to set an upper limit on its variable interest rate exposures for 2008/09, 2009/10, 2010/11 and 2011/12. This limit represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in years in which options occur and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that a limit of 40% of debt be set for each year.

Recommended: Upper limit on variable interest rate exposures for 2008/09, 2009/10, 2010/11 and 2011/12 of 40%

3.5.4 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate and are proposed as follows:

| | Cumulative Upper limit | Lower limit |
|--------------------------------|-----------------------------------|--------------------|
| Under 12 months | 30% | 0% |
| 12 months and within 24 months | 30% | 0% |
| 24 months and within 5 years | 40% | 0% |
| 5 years and within 10 years | 50% | 0% |
| 10 years and above | 90% | 25% |

Recommended: Upper and Lower limits on fixed rate maturity structure as above.

3.6 Investment Strategy and Limits

3.6.1 The Council's external debt is reduced by the availability of revenue balances. The Treasury Policy allows for the external investment of these balances should this prove cost effective. This could be undertaken by the Council or by External Fund managers on the Council's behalf. Throughout 2008/09, the Director of Resources has kept the interest outlook under review and investment of surplus balances in general has been limited to cash flow and liquidity management. The exception to this has been the investment of amounts borrowed to pre-fund £15m of the 2009/10 requirement.

3.6.2 The unprecedented period of financial and economic volatility, forcing a number of bank failures, has resulted in the need to re-appraise where the Council places its deposits. It is important to recognise that whatever risk measures are put in place to protect the Council's investments, there is no 100% guarantee that an investment will be risk free. The strategy for placing deposits with approved financial institutions on our credit rating list is outlined below.

Short Term Deposits

- 3.6.3 On a day to day basis surplus funds are borrowed or lent in the money markets to balance the Council's cash flow. Currently where it is necessary to deposit funds, these are being placed for periods of up to one month, but no longer. By keeping funds short, risks to the Council are minimised but this could be at the expense of earning a lower rate of interest.
- 3.6.4 The alternative to placing surplus funds in the markets is to keep the funds in the Council's business reserve account with Nat West Bank which offers 0.30% above the bank rate. There is a further alternative that includes investing the money with the Government's Debt Management Account Deposit Facility. The best rate that this account currently offers is 0.9% and it is perhaps more appropriate to repay debt rather than invest at the rate offered. It is also the case that if Councils collectively deposited greater sums with the Government the market would be further drained of essential liquidity, making it more likely that the interbank cost of borrowing would increase and, in turn, the banks would become even more reliant on Government help.

Long Term Deposits

- 3.6.5 Before considering any further borrowing in advance of need and investment of funds until required, the following factors will be considered:
- a) The rate that can be secured on the borrowing given interest rate forecasts,
 - b) Security of counter parties to ensure that we get the money back, to include:
 - Evidence so far that the UK Government appears to be keen to support the UK banking sector – through recent acquisitions and shareholdings.
 - Evidence that some non-UK Governments are also backing their banks, for example, Ireland.
 - Whether there is scope within the lending list to lend further funds to "red" rated institutions both within the UK and outside the UK.
 - c) The investment rate that can be achieved (every 1% over the borrowing rate would provide additional net interest for the revenue budget of £100k for every £10m borrowed and invested for one year), and
 - d) Review of the Investment guidelines for Councils by CIPFA and a review of the local government treasury management code conducted by the Government to take place shortly.

- 3.6.6 The Director of Resources will continue to monitor the interest rate outlook and seek to maximise the return on revenue balances. This will be done directly with Counter parties investing in a range of investment instruments, for example, fixed rate deposits, callable range accruals etc, with a full assessment of the risks involved, but could also involve the use of fund managers.
- 3.6.7 With effect from the 1st April 2004, to coincide with the introduction of the Prudential code, ODPM issued legislation and guidance on Local Government Investments. This legislation allows Councils with external debt to hold investments for more than 364 days, a freedom not previously allowed. Further freedoms were also introduced which give Councils greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the Prudential framework. The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below.

Recommended: Upper limit on sums invested for periods longer than 364 days:

| Total principal sum invested for a period longer than 364 days | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Upper limit | 150 | 150 | 150 | 150 |

- 3.6.8 In accordance with the Prudential code the Council has created and maintained a Treasury Management Policy. Revisions to parts of the policy have been approved by Members from time to time in the annual strategy and half year updates on Treasury Strategy. It is recommended that the entire policy which is updated and attached at appendix C is reaffirmed. Members are asked to note the amendments made to Section 7 “Approved Instruments and Organisations for Investments”. This section has been amended to reflect that financial institutions formerly regarded as excellent (red colour) have been further divided into three colours (red, orange and purple) to reflect the length of time over one year that amounts can be placed with different financial institutions.

4 Implications For Council Policy And Governance

- 4.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 4.2 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators. Any in year revision of these limits must similarly be set by Council.
- 4.3 The Code of Practice requires that policy statements are prepared for approval by the Council at least twice a year. This treasury management strategy statement for 2009/10 seeks approval in accordance with the code.

5 Legal And Resource Implications

- 5.1 The treasury management strategy for 2009/10 and update of 2008/09 recognises the borrowing required to fund the capital programme requirements of both General Fund and HRA. Provision for the revenue cost of this borrowing has been made within the revenue budget.

6 Conclusions

- 6.1 The treasury management strategy 2009/10 enables borrowing to be undertaken to fund the capital programme for both General Fund and HRA.

7 Recommendations

That the Executive Board :

- 7.1 Approve the initial treasury strategy for 2009/10 as set out in Section 3.3 and note the review of the 2008/09 strategy and operations set out in Sections 3.1 and 3.2.
- 7.2 Recommend to Council the setting of borrowing limits for 2008/09, 2009/10, 2010/11 and 2011/12 as set out in Section 3.4.
- 7.3 Recommend to Council the setting of treasury management indicators for 2008/09, 2009/10, 2010/11 and 2011/12 as set out in Section 3.5.
- 7.4 Recommend to Council the setting of investment limits for 2008/09, 2009/10, 2010/11 and 2011/12 as set out in Section 3.6.
- 7.5 Recommend to full council to reaffirm the Treasury Management Policy Statement and note the amendments to Section 7: "Approved Instruments and Organisations for Investments" as attached at Appendix C.

Associated Documents

- a) Treasury Management Strategy 2008/09 – Executive Board 8th February 2008
- b) Treasury Management Annual Report 2007/08 – Executive Board 16th July 2008
- c) Treasury Management Strategy Update 2008/09 – Executive Board 5th November 2008

Leeds City Council - Prudential Indicators 2008/09 - 2011/12

| No. | PRUDENTIAL INDICATOR | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|--|------------------|------------------|------------------|------------------|
| (1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS | | | | | |
| 1 | Ratio of Financing Costs to Net Revenue Stream General Fund - Excluding DSG (Note 1) | 7.76% | 9.55% | 11.50% | 12.14% |
| 2 | HRA | 14.64% | 14.49% | 13.44% | 13.45% |
| Impact of Unsupported Borrowing on Council Tax & Housing Rents | | £ . P | £ . P | £ . P | £ . P |
| 3 | increase in council tax B7 (band D, per annum) (Note 2) | 57.25 | 81.18 | 83.86 | 84.69 |
| 4 | increase in housing rent per week | 0.00 | 0.00 | 0.00 | 1.00 |
| 5 | Net Borrowing and the capital financing requirement (Note 3) | OK | OK | OK | OK |
| Estimate of total capital expenditure | | | | | |
| 6 | Non HRA | 235,593 | 256,456 | 206,832 | 132,733 |
| 7 | HRA | 104,646 | 51,230 | 51,057 | 41,032 |
| | TOTAL | 340,239 | 307,686 | 257,889 | 173,765 |
| Capital Financing Requirement (as at 31 March) | | £'000 | £'000 | £'000 | £'000 |
| 8 | Non HRA | 775,789 | 847,257 | 893,849 | 950,847 |
| 9 | HRA | 788,375 | 800,823 | 813,098 | 816,098 |
| | TOTAL | 1,564,164 | 1,648,080 | 1,706,947 | 1,766,945 |

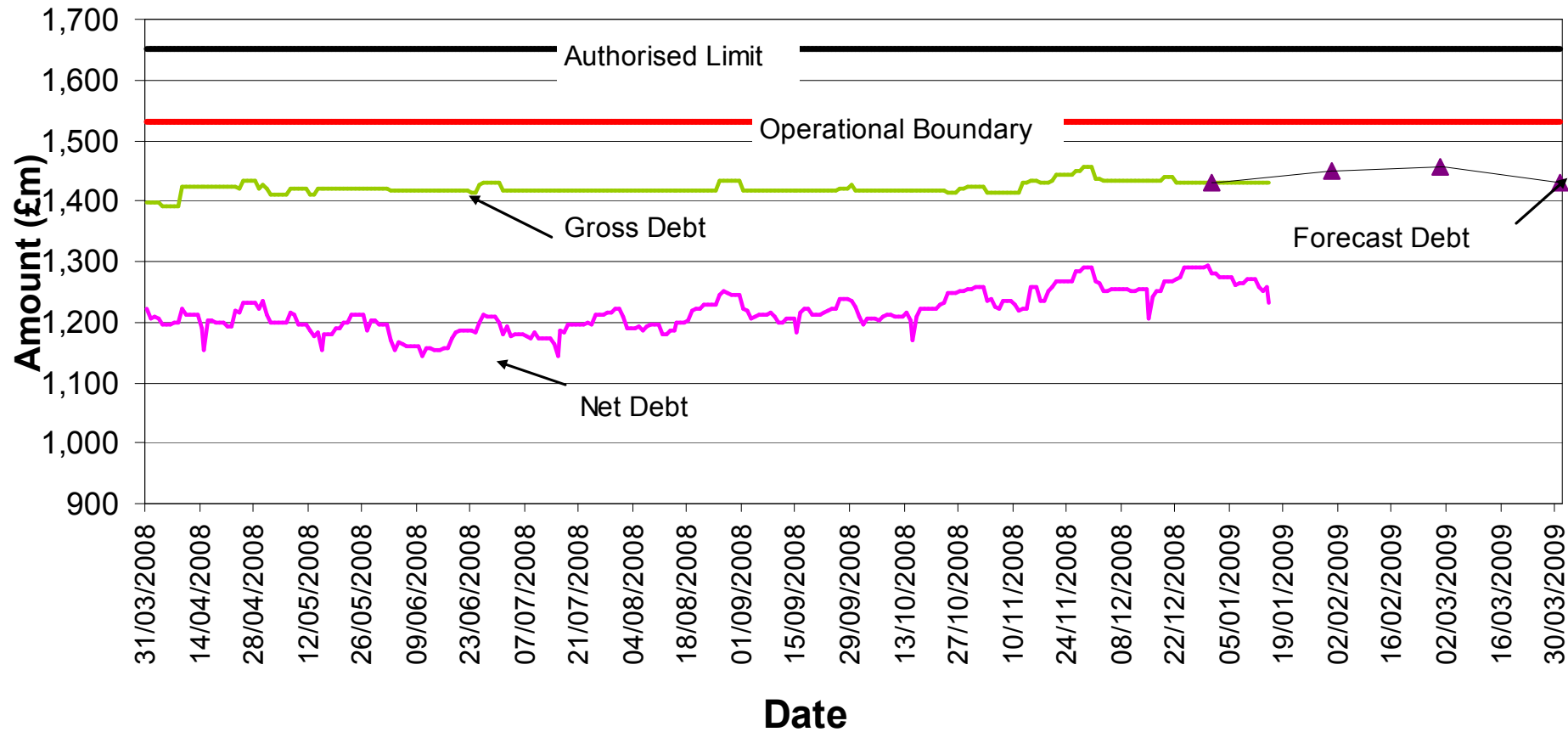
| No. | PRUDENTIAL INDICATOR | 2008/09 | 2008/09 | 2008/09 | 2008/10 |
|---|---|------------------|------------------|------------------|------------------|
| (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS | | | | | |
| | | £'000 | £'000 | £'000 | £'001 |
| 10 | Authorised limit for external debt - (Note 5) | | | | |
| | borrowing | 1,720,000 | 1,780,000 | 1,830,000 | 1,900,000 |
| | other long term liabilities | 40,000 | 380,000 | 380,000 | 380,000 |
| | TOTAL | 1,760,000 | 2,160,000 | 2,210,000 | 2,280,000 |
| 11 | Operational boundary - (Note 5) | | | | |
| | borrowing | 1,530,000 | 1,640,000 | 1,690,000 | 1,760,000 |
| | other long term liabilities | 30,000 | 370,000 | 370,000 | 370,000 |
| | TOTAL | 1,560,000 | 2,010,000 | 2,060,000 | 2,130,000 |
| 14 | Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments OR:- | 115% | 115% | 115% | 115% |
| 15 | Upper limit for variable rate exposure Net principal re variable rate borrowing / investments OR:- | 40% | 40% | 40% | 40% |
| 17 | Upper limit for total principal sums invested for over 364 days (Note 5) (per maturity date) | 150,000 | 150,000 | 150,000 | 150,000 |

| 16 | Maturity structure of fixed rate borrowing 2008/09 | Cumulative Upper Limit | Projected 31/03/09 |
|----|--|------------------------|--------------------|
| | under 12 months | 30% | 0.0% |
| | 12 months and within 24 months | 30% | 8.6% |
| | 24 months and within 5 years | 40% | 16.5% |
| | 5 years and within 10 years | 50% | 3.1% |
| | 10 years and above | 90% | 71.8% |

otes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.
- The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003. From 2009/10 CIPFA is proposing to account for PFI schemes under IFRIC 12 resulting in PFI borrowings being brought onto Local Authority Balance Sheets

Prudential Code Monitoring 2008/09 - Debt



Treasury Management Policy Statement

1 Introduction

- 1.1 The following documents sets out the Treasury Management Policy Statement (TMPS) for the Authority, which fully complies with the requirements of the Prudential Code.

2 Background

- 2.1 CIPFA first published its Code of Practice on Treasury Management in May 1992, there have been subsequent revisions over the years culminating in the latest version of the code, which recommends that all public service organisations adopt, as part of their standing orders and financial procedures, the following four clauses.
- a) This Authority adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice* (the Code), as described in Section 4 of that Code.
 - b) Accordingly, this Authority will create and maintain, as the cornerstones for effective treasury management:
 - A TMPS, stating the policies and objectives of its treasury management activities
 - Suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
 - c) The Executive Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPS.
 - d) This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Board, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the organisation's TMPS and Treasury Management Practices and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*."
- 2.2 CIPFA recommends that an organisation's TMPS adopts the following forms of words to define the policies and objectives of its treasury management activities:
- This organisation defines its treasury management activities as: "The management of the organisation's 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."
 - This organisation 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.

- This organisation 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

- 2.3 These key recommendations and form of words as specified above were adopted by the Executive Board on the 12th March 2003.
- 2.4 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 2.5 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators. Any in year revision of these limits must similarly be set by Council.
- 2.6 The requirements of the Prudential Code are set out within the Council's Financial Procedures.

3 Objectives of Treasury Management

- 3.1 The primary objective is to reduce cost of debt management with which the other objectives are deemed to be consistent. Varying degrees of emphasis will be placed upon the "secondary objectives" at different times contingent upon prevailing market conditions.
- 3.2 The objectives are identified as follows:
- a) To reduce the **cost of** level of external debt;
 - b) To ensure that best use is made of the Housing Subsidy Grant and that all new accounting principles are examined to provide benefits where possible;
 - c) To effect funding at the lowest point of the interest rate cycle;
 - d) To maintain a flexible approach regarding any financial matters that may effect the Authority;
 - e) To keep under constant review advice on investment/repayment of debt policy;
 - f) To maintain a prudent level of volatility dependant upon interest rates;
 - g) To set upper and lower limits for the maturity structure of its borrowings and to maintain a reasonable debt maturity profile;
 - h) To specifically ensure that the Leeds City Council does not breach Prudential Limits passed by the Council;
 - i) To ensure that the TMPS is fully adhered to in every aspect.

4 Approved Activities of the Treasury Management Operation

- 4.1 The approved activities of the Treasury Management operation cover:
- a. borrowing;
 - b. lending;

- c. debt repayment and rescheduling;
 - d. financial instruments new to the authority;
 - e. risk exposure; and
 - f. cash flow.
- 4.2 It is the Council's responsibility to approve the TMPS. The Executive Board will receive and consider as a minimum:
- a) an annual treasury management strategy before the commencement of the new financial year (which sets out the likely operations for the forthcoming year);
 - b) an annual report on the treasury management activity after the end of the year to which it relates.
- 4.3 The Director of Resources will:
- a) implement and monitor the TMPS, revising and resubmitting it for consideration to the Board and the Council, periodically if changes are required;
 - b) draft and submit a Treasury Management Strategy to the Board, in advance of each financial year;
 - c) draft and submit an annual report on treasury management activity to the Board; and
 - d) implement and monitor the Strategy, reporting to the Board any material divergence or necessary revisions as and when required;

5 Formulation of Treasury Management Strategy

- 5.1 Whilst this TMPS outlines the procedures and considerations for the treasury function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Executive Board for approval before the commencement of each financial year.
- 5.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates (for instance, the Council may postpone borrowing if fixed interest rates are falling).
- 5.3 The Treasury Management Strategy is also concerned with the following elements:
- a) the prospects for interest rates;
 - b) the limits placed by Council on treasury activities (per this TMPS);
 - c) the expected borrowing strategy;
 - d) the temporary investment strategy;
 - e) **the policy concerning retention of the Provision for Credit Liabilities and investment versus debt redemption;**

f) the expectations for debt rescheduling.

5.4 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts where applicable), and highlight sensitivities to different scenarios.

6 Approved Methods and Sources of Raising Capital Finance

6.1 Under the Local Government Act 2003 a local authority may borrow money for:

- a) for any purpose relevant to its functions under any enactment, or
- b) for the purposes of the prudent management of its financial affairs.

A local authority may not, without the consent of the Treasury, borrow otherwise than in sterling.

6.2 Local authorities have in the past only been able to raise finance in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

| | | Fixed | Variable |
|---|--|--------------|-----------------|
| | Public Works Loans Board (PWLB) | • | • |
| | European Investment Bank (EIB) | • | • |
| | Stock Issues | • | • |
| | Market Long-Term | • | • |
| | Market Temporary | • | • |
| | Local Temporary | • | • |
| | Local Bonds | • | |
| | Overdraft | | • |
| * | Negotiable Bonds | • | • |
| | Internal (capital receipts & revenue balances) | • | • |
| * | Commercial Paper | • | |
| * | Medium Term Notes | • | |

* (Not used at present by this Council)

7 Approved Instruments and Organisations for Investments

- 7.1 With effect from the 1st April 2004, to coincide with the introduction of the prudential code, new legislation has been issued to deal with the issue of Local Government Investments. This legislation lifts the restrictions on Councils with external debt to not hold investments for more than 364 days. Further freedoms are also provided which will give Council's greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the new prudential framework.
- 7.2 The Council will have regard to the DCLG Guidance on Local Government Investments issued in March 2004 and CIPFAs Treasury Management in Public Services Code of Practice and Cross Sectorial Guide. The Council's investment priorities are:
- a) The security of capital; and
 - b) The liquidity of investments
- 7.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council does not have the authority to undertake borrowing purely to invest or lend and make a return as this is unlawful and as such will not engage in such activity.
- 7.4 The Director of Resources will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type and specific counterparty limits. This criteria forms part of this Policy and is attached at Annex A.
- 7.5 Should any revisions occur to the criteria, they will be submitted to the Executive Board for approval. Where individual counterparties newly obtain the required criteria, they will be added to the list. Similarly, those ceasing to meet the criteria will be immediately deleted.
- 7.6 The Council's approved Treasury Policy is to use the recommended lending list provided by Sector, the Council's treasury advisers. The Sector list is compiled on a matrix approach using data from recognised international credit rating agencies, which provide ratings of institutions across four categories. The Sector list had in the past ranked institutions as 'excellent' (or 'red'), 'good' (or 'green'), or no ranking (i.e. not advised to lend to). Sector has now further split the rankings of institutions regarded as excellent into three colours (red, orange and purple) to reflect the length of time over one year that amounts can be placed with them. The revised rating categories are shown below. Sector continues to provide regular updates to this list, as institutions' credit ratings change. The use of the Sector list was introduced and reported to Executive Board in the Treasury Strategy and Policy report of February 2002.
- 7.7 The Council's policy states that it will lend up to £15 million to an institution ranked as 'excellent' and up to £5 million for up to 3 months to an institution ranked as 'good'. A number of these institutions exist within the same group of companies as parents or subsidiaries. To limit the risk exposure of the council it is recommended that a group borrowing limit of £30m be set. These limits do not apply to the Councils' Banker where we have an unlimited deposit facility as part of our banking arrangements. The Council's banking arrangements are the subject of a separate contract, and as such volumes and levels of transactions are not subject to the counterparty ratings and limits that are in place on external investments.

**Institutions with
and**

Short Term rating
Long Term Rating

F1+
AAA, AA+,AA

| Individual | Support | | | |
|------------|---------|--------|---|---|
| | 1 | 2 | 3 | 4 |
| A | Purple | Purple | | |
| A/B | Purple | Purple | | |
| B | Purple | Purple | | |
| B/C | Purple | Purple | | |
| C | | | | |
| C/D | | | | |
| D | | | | |

**Institutions with
and**

Short Term rating
Long Term Rating

F1+
AA-

| Individual | Support | | | |
|------------|---------|--------|---|---|
| | 1 | 2 | 3 | 4 |
| A | Orange | Orange | | |
| A/B | Orange | Orange | | |
| B | Orange | Orange | | |
| B/C | Orange | Orange | | |
| C | | | | |
| C/D | | | | |
| D | | | | |

**Institutions with
and**

Short Term rating
Long Term Rating

F1+
AAA, AA+,AA,AA-

| Individual | Support | | | |
|------------|---------|-----|-------|---|
| | 1 | 2 | 3 | 4 |
| A | Red | Red | Red | |
| A/B | Red | Red | Green | |
| B | Red | Red | Green | |
| B/C | Red | Red | Green | |
| C | Red | Red | Green | |
| C/D | | | | |
| D | | | | |

**Institutions with
and**

Short Term rating
Long Term Rating

F1
A+,A

| Individual | Support | | | |
|------------|---------|-------|-------|---|
| | 1 | 2 | 3 | 4 |
| A | Red | Red | Green | |
| A/B | Red | Red | Green | |
| B | Red | Red | Green | |
| B/C | Green | Green | | |
| C | Green | Green | | |
| C/D | | | | |
| D | | | | |

Where the following investment limits are applied by the Council's Treasury policy

| Sector Ranking | Meaning | Limit on Amount Lent | Limit on Duration |
|----------------|-----------|----------------------|-------------------|
| Purple | Excellent | £15m | 5 Years |
| Orange | Excellent | £15m | 2 Years |
| Red | Excellent | £15m | 1 Year |
| Green | Good | £5m | 3 Months |

7.8 The above criteria typically generated a list of approximately 67 'excellent' rated institutions and 45 'good' institutions at the time of writing.

7.9 Within the investment limits outlined above the Council has access to a number of investment instruments. These are listed below as specified and non specified investment categories. Specified investments are defined as "minimal procedural formalities" under the March 2004 ODPM guidance.

a) **Specified Investments**

(All such investments will be sterling denominated, with **maturities of any period meeting** the minimum 'high' rating criteria where applicable)

| Fixed Term Deposits with fixed rates | Use |
|--|----------------------------|
| Debt Management Agency Deposit Facility | In-house |
| Term deposits – local authorities | In-house |
| Term deposits – banks and building societies | In-house and fund managers |

In the following table the determination as to whether the following are specified or non specified is at the discretion of the Authority depending on the element of the return that is fixed, **provided that the maturity of the investment falls within 1 year.**

| | |
|---|---|
| Fixed term deposits with variable rate and variable maturities: - | |
| 1. Callable deposits | In-house and fund managers |
| 2. Range trade | In-house and fund managers |
| 3. Snowballs | In-house and fund managers |
| Certificates of deposits issued by banks and building societies | In-house buy and hold and fund managers |
| UK Government Gilts | In-house buy and hold and Fund Managers |
| Bonds issued by multilateral development banks | In-house on a 'buy-and-hold' basis. Also for use by fund managers |
| Bonds issued by a financial institution which is guaranteed by the UK government | In-house on a 'buy-and-hold' basis. Also for use by fund managers |
| Sovereign bond issues (i.e. other than the UK govt) | In house on a 'buy and hold basis' and Fund Managers |
| Treasury Bills | Fund Managers |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): | |
| 1. Money Market Funds | In-house and fund managers |
| 2. Enhanced cash funds | In-house and fund managers |
| 3. Short term funds | In-house and fund managers |
| 4. Bond Funds | In-house and Fund Managers |

| | |
|---------------|----------------------------|
| 5. Gilt Funds | In-house and Fund Managers |
|---------------|----------------------------|

Note: If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

b) **Non-Specified Investments:**

Non-specified investments are those where the return is uncertain.

Maturities of ANY period.

| | Use |
|---|--|
| Corporate Bonds : <i>the use of these investments would constitute capital expenditure</i> | In house on a 'buy and hold basis' and Fund Managers |
| Floating Rate Notes : <i>the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i> | Fund managers |

All the investments in the following table are non-specified as returns could be uncertain and **the maturity of the investment is greater than 1 year.**

| | |
|---|---|
| Fixed term deposits with variable rate and variable maturities | |
| 1. Callable deposits | In-house and fund managers |
| 2. Range trade | In-house and fund managers |
| 3. Snowballs | In-house and fund managers |
| Certificates of deposits issued by banks and building societies | In house on a 'buy and hold basis' and Fund managers |
| UK Government Gilts | In house on a 'buy and hold basis' and Fund Managers |
| Bonds issued by multilateral development banks | In-house on a 'buy-and-hold' basis. Also for use by fund managers |
| Bonds issued by a financial institution which is guaranteed by the UK government | In-house on a 'buy-and-hold' basis. Also for use by fund managers |
| Sovereign bond issues (i.e. other than the UK govt) | In house on a 'buy and hold basis' and Fund Managers |
| Property fund: <i>the use of these investments would constitute capital expenditure</i> | Fund manager |
| 1. Bond Funds | In-house and Fund Managers |
| 2. Gilt Funds | In-house and Fund Managers |
| Collective Investment Schemes structured as Open Ended Investment Schemes | |
| Bond Funds | In-house and Fund Managers |
| Gilt Funds | In-house and Fund Managers |

7.10 The Director of Resources will continue to monitor the range of investment instruments available and make changes to the list as appropriate.

8 Policy on Interest Rate Exposure

8.1 As required by the Prudential Code, the Council must approve before the beginning of each financial year the following treasury limits:

a) the overall borrowing limit;

- b) the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;
- c) the maximum proportion of interest on borrowing which is subject to variable rate interest.

8.2 The Director of Resources is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Resources shall submit the changes for approval to the Executive Board before submission to the full Council for approval.

9 Policy on External Managers

9.1 The Authority has recently included in its Policy the appointment of external investment fund managers. In the past, the Council has taken the view that the appointment of external fund managers would not justify the investment of senior management time in terms of the expected marginal return over what could be achieved by investing the funds internally, internal investment reducing the level of the Council's external debt.

9.2 However, the fact that a fund manager's expertise allows for a wider investment portfolio than would be operated by Council officers may give opportunities for capital gains to supplement interest earned on investment of revenue balances.

9.3 It is felt appropriate therefore that the Policy allows for the use of external fund managers and although none are being used at present, this situation will be kept under review. Appointment of a fund manager would take place following a tender exercise and submissions on target performance.

10 Policy on Delegation and Review Requirements and Reporting Arrangements

10.1 The Council is responsible for determining the borrowing limits detailed in section 8 above. Other responsibilities and duties are delegated as follows.

10.2 The Executive Board has responsibility for determining and reviewing treasury strategy and performance. (See section 5 above).

10.3 The Director of Resources and through him/her to his/her staff, has delegated powers for all borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Director of Resources and staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities.

10.4 Delegation within the Corporate Services Department operates on the following basis:

- a) The practical organisation within the Corporate Services Department is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group attended by the Director of Resources and Chief Officer (Financial Development). Quarterly, treasury strategy review meetings take place with the Senior Treasury Manager and Treasury Manager.

- b) Implementation of decisions at such meetings and the day to day management of the Treasury Operations is delegated without limit to the Chief Officer (Financial Development) and through him/her, or in his/her absence, to either the Senior Treasury Manager or the Treasury Manager.
- c) Consultations will be made by the Director of Resources on Treasury Management matters with:
- The Chief Executive : so that he/she can ensure proper Treasury systems are in place and are properly resourced.
 - External Treasury Advisers : so that they can advise and monitor the process of fixing strategy and policy on Treasury Matters and advise on the economic outlook, prospects for interest rates and credit worthiness

FITCH CREDIT RATING DEFINITIONS

Source : Fitch Ratings

International Short-Term Credit Ratings

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for US public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2 Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3 Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

B Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

C High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

D Default. Denotes actual or imminent payment default. "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' long-term rating category, to categories below 'CCC', or to short-term ratings other than 'FI'.

International Long-Term Credit Ratings Investment Grade

AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

Speculative Grade

BB Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B Highly speculative. 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

CCC, CC High default risk. Default is a real possibility. Capacity for meeting and C financial commitments is solely reliant upon sustained, favourable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

DDD, DD Default. The ratings of obligations in this category are based on and D their prospects for achieving partial or full recovery in a reorganisation or liquidation of the obligor. 'DDD' designates the highest potential for recovery of amounts outstanding on any securities involved. 'DD' indicates expected recovery of 50% - 90% of such outstandings, and 'D' the lowest recovery potential, i.e. below 50%.

Individual Ratings

Fitch's Individual Ratings attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk and thus represents Fitch's view on the likelihood that it would run into significant difficulties such that it would require support.

A A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment, or prospects.

B A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C An adequate bank which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

D A bank which has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects .

E A bank with very serious problems which either requires or is likely to require external support.
Note: In addition, FITCH uses gradations among these five ratings, i.e AIB, BIC, CID, and DIE.

Support Ratings

Support/Legal Ratings do not assess the quality of a bank. Rather, they are Fitch's assessment of whether it would receive support in the event of difficulties. Fitch emphasises that these ratings constitute their opinions alone - although they may discuss the principles underlying them with the supervisory authorities, the ratings given to banks are Fitch's own and are not submitted to the authorities for their comment or endorsement.

1 A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

2 A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

3 A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

4 A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

5 A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

It must be emphasised that in the Support rating Fitch is not analysing how "good" or "bad" a bank is, but merely whether in Fitch's opinion it would receive support if it ran into difficulties.