

COUNCIL

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TREASURY MANAGEMENT STRATEGY 2010/2011

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Summary

This report seeks Council's approval of the Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement after taking account of Business Support Overview and Scrutiny's and Cabinet's comments. The report incorporates changes that arise from the new CIPFA code and CLG consultation in light of the Icelandic situation and financial crisis.

1. Budget and Policy Framework

- 1.1 Council is asked to approve, following consideration of the comments made by the Business Support Overview and Scrutiny Committee and Cabinet, the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement.
- 1.2 Policy and setting of prudential indicators is now a matter for Council whereas in previous years only the prudential indicators will have been determined in this way.

2. The Revised CIPFA Treasury Management Code of Practice 2009

- 2.1 The experience of the Icelandic situation in 2008 has led CIPFA to amend the CIPFA Treasury Management in the Public Services Code of Practice (the Code). It is also now a requirement of the revised Code that the Council should formally adopt the Code and the revised Treasury Management Policy Statement as part of standing orders and financial regulations. Appendix 1 sets out the CIPFA recommendations which include four amended clauses for adoption which have been incorporated in the proposed changes to the Constitution as set out at Appendix 4 (Chapter 4, Part 6 Finance Rules, Section 7.2(c) to (f)). Appendix 2 details the Treasury Management Policy Statement.

- 2.2 The revised Code places particular emphasis on four key points of principal as set out in Appendix 1 but also emphasises a number of key areas including the following: -
- a) All councils must formally adopt the revised Code and four clauses;
 - b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities;
 - c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out;
 - d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation;
 - e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support;
 - f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits;
 - g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities;
 - h) The main annual treasury management reports must be approved by full Council;
 - i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved;
 - j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body;
 - k) Treasury management performance and policy setting should be subjected to prior scrutiny;
 - l) Members should be provided with access to relevant training;
 - m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training;
 - n) Responsibility for these activities must be clearly defined within the organisation; and
 - o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

- 2.3 This strategy report has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by Council and there will also be a mid year report. In addition there will be monitoring reports and regular review by Members in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 2.4 This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Table 1 – Reporting Arrangements

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy	Business Support Overview and Scrutiny , Cabinet then full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Business Support Overview and Scrutiny, Cabinet then full Council	Mid year
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	As and when necessary
Treasury Management Practices	Business Support Overview and Scrutiny then Cabinet	Annually before the start of the year and as and when amendments proposed
Treasury Management Monitoring Reports	Cabinet	Part of regular financial monitoring cycle
Annual Treasury Outturn Report	Cabinet then Audit Committee	Annually by 30 September after the end of the year

3. Revised CIPFA Prudential Code

- 3.1 CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -
- authorised limit for external debt
 - operational boundary for external debt
 - actual external debt.

- 3.2 However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

4. Revised Investment Guidance

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

5. Treasury Management Strategy for 2010/2011

- 5.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. The investment strategy is set out in section 17 below which details the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 5.3 The suggested strategy for 2010/2011 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.
- 5.4 The strategy covers:
- treasury limits in force which will limit the treasury risk and activities of the Council
 - Prudential and Treasury Indicators
 - the current treasury position
 - the borrowing requirement
 - prospects for interest rates
 - the borrowing strategy
 - policy on borrowing in advance of need
 - debt rescheduling
 - the investment strategy
 - creditworthiness policy
 - policy on use of external service providers
 - the MRP strategy

6. Treasury Management Practices and Schedules

- 6.1 In exercising the delegations to fulfil the responsibilities set out in the Treasury Management Strategy the Council will establish a set of standards to govern the manner in which these responsibilities are exercised. These standards are

referred to as the Treasury Management Practice statements and are supported by the requisite Schedules that flow from the exercise of those Practices. These documents have been scrutinised by Business Support Overview and Scrutiny and Cabinet who noted the practices and associated schedules feeding any comments back to the Chief Finance Officer who will ensure the proper stewardship of the Treasury function is maintained.

7. Balanced Budget Requirement

7.1 It is a statutory requirement, for the Council to produce a balanced budget. In particular, it is a requirement for a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
 - increases in running costs from new capital projects;
- are affordable within the projected income of the Council for the foreseeable future.

8. Treasury Limits for 2010/2011 to 2012/2013

8.1 It is a statutory duty, for the Council to determine and keep under review how much it can afford to borrow. This is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

8.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

8.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit can be found in appendix 6 of this report.

9 Current Portfolio Position

9.1 The Council's treasury portfolio position as at 31 March 2010 is anticipated to be:

Table 2 – Anticipated treasury position as at 31 March 2010

	Principal		Ave. rate	
		£m	£m	%
Fixed rate funding	PWLB	96.48		
	Market	<u>101.80</u>	198.28	3.81
Variable rate funding	PWLB	0.00		
	Market	<u>0.13</u>	0.13	0.50
Other long term liabilities			<u>0.00</u>	
Gross debt			198.41	
In house Investments		81.80		2.92
Investec Investments		22.24		1.15
Total investments			104.04	
Net debt			<u>94.36</u>	

10. Borrowing Requirement

10.1 The Council's borrowing requirement is as follows and indicates a lack of external borrowing for the foreseeable future because of the relative position of investment returns and rates for new borrowing:

Table 3 – Borrowing requirement

	2008/09	2009/10 to 2012/13
	£'000 actual	£'000 probable
New borrowing	14.15	0.00
Replacement borrowing	60.40	0.00
Total borrowing requirement	74.55	0.00

11. Prudential and Treasury Indicators for 2010/2011 – 2012/2013

11.1 Prudential and Treasury Indicators as set out in appendix 6 to this report are relevant for the purposes of setting an integrated treasury management strategy.

11.2 The Council adopted the CIPFA Code of Practice on Treasury Management originally on the 17 February 2002 and the revised Code is recommended for adoption within the recommendations of this report.

12. Prospects for Interest Rates

12.1 The Council has appointed Sector Treasury Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The view of Sector based upon a central case is that rates will be:

- Year end 2010 - 0.50%
- Year end 2011 - 1.50%
- Year end 2012 - 3.50%
- Year end 2013 - 4.50%

12.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

13. Borrowing Strategy

13.1 Sector forecast for the PWLB new borrowing rate is set out below:

Table 4 – Sector forecast PWLB and Bank rate

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50yr PWLB rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

13.2 As referred to in paragraph 10.1, due to the very low interest rates being earned on investments and restrictions to mitigate counterparty risk, officers will be repaying existing and deferring taking out new debt. However, in the event that it was deemed advantageous to borrow then we will evaluate the economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow.

14. External v. internal borrowing

14.1 Table 5 below shows the anticipated gross and net (gross less cash balances) debt. The difference between the two figures thereby indicates the size of potential investments. With low interest rates earning historically low sums for investments it is advantageous to utilise those funds to pay off debt and or finance capital spend. This strategy additionally reduces the credit risk of investing in the markets.

Table 5 – Comparison of gross and net debt positions at year end

	2008/09	2009/10	2010/11	2011/12	2012/13
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	248,807	198,408	173,361	163,325	153,312
Cash balances	134,747	104,045	73,285	58,657	44,044
Net debt	114,061	94,363	100,077	104,668	109,268

14.2 It is anticipated that the opening difference between gross debt and net debt, will be £104,045,000 as at 31 March 2010, this is a reduction of some £30m from 31 March 2009 attributable to repayments of debt as loans fell due for repayment in the period, together with using internal funds rather than external borrowing to finance capital projects.

14.3 Over the next three years, investment rates are expected to remain below long term borrowing rates and so value for money considerations would indicate that best value is obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short-term savings.

14.4 However, short term savings achieved by avoiding new long term external borrowing in 2010/2011 need to be weighed against the potential long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

14.5 Against this background caution will be adopted with the 2010/2011 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Decisions made will be reported in accordance with the arrangements set out in Table 1.

15 Policy on borrowing in advance of need

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

15.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

16. Debt Rescheduling

- 16.1 PWLB introduced a new rates structure on 1 November 2007 that differentiated between the rates applied to new borrowing and those for the repayment of existing debt. This has meant that PWLB debt restructuring is now much less attractive than it was. However, savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans or other market loans in rescheduling exercises subject to the level of penalty imposed by the PWLB for early redemption.
- 16.2 As short term borrowing rates will be considerably cheaper than longer-term rates, there are likely to be significant opportunities to generate savings by switching from long-term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt will cause a change to the Council's maturity profile which would also require careful consideration.
- 16.3 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the strategy outlined in paragraph 13 above; and
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 16.4 The rates differential referred to in paragraph 16.1 has been the subject of much discussion and the DMO / PWLB have issued a consultation document with suggested options to revise the methodology used to calculate the early repayment rate. The consultation period ended in January 2010 and officers will monitor developments in this area and may amend its strategy if significant changes are introduced.

17. Annual Investment Strategy

17.1 *Investment Policy*

- 17.1.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). To comply with these documents the Council's investment priorities are now:
- (a) the security of capital; and
 - (b) the liquidity of its investments.
- 17.1.2 The yield on investments, whilst clearly of importance to the budget scenario for the Council must be secondary to these principles. The risk appetite of the Council is low in order to give priority to security of its investments.
- 17.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.
- 17.1.4 Investment instruments identified for use in the financial year are listed in appendix 7 under the 'Specified' and 'Non-Specified' Investments categories.

Counterparty limits will be as set through the Council's Treasury Management Practices "Schedules" (See appendix 10).

17.2 **Creditworthiness policy**

17.2.1 The Council's investment portfolio is split between the in-house team and our fund manager Investec. The strategies adopted by these two organisations differ with the in-house team focusing on fixed term deposits, whilst the fund manager will vary the mix of the portfolio to include trades with gilts and certificates of deposits depending upon market conditions. As such the in-house team and Investec will compile, use and be responsible for their own counterparty lists. However, the Council must equally ensure that it is satisfied that the method used to compile both the in-house and Investec counterparty lists is robust enough to ensure that the Council's position is protected as much as possible given the overall investment strategy adopted.

17.2.2 The in house team uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and combines credit ratings, credit watches, credit outlook and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.

17.2.3 The Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies (Fitch, Moody's and Standard and Poors) to determine creditworthy counterparties. One of the companies (Moody's) are currently very much more aggressive in giving low ratings than the other two agencies. A minimum approach, driven by Moody's, would leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

17.2.4 All credit ratings will be monitored continuously by officers. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

17.2.5 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and other intelligence, such as information on government support for banks and the credit ratings of that government support.

17.2.6 Investec use the following methodology to compile its counterparty list:

17.2.7 Three key elements are continuously addressed.

(a) Ratings set by Standard and Poors and Fitch IBCA

(b) Credit Default Swap levels (CDS's)

(c) Subjective Overlay

17.2.8 The Fund Managers "score" the markets current attitude to our counterparties on the standard lending list.

17.2.9 Scores are given for the following three important tests:

1. Will a bank buy back its own certificates of deposits (CDs) from us?
If the answer is "Yes" this is seen as a signal that there is satisfactory liquidity and a low score will result. A "No" will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.
2. Is the bank a frequent or rare issuer of CDs?
Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses "may be full of the name" or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.
3. Do CDs issued by the banks trade "well" in the secondary market?
The market's appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

17.3 **Country limits**

17.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that would currently qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be maintained by the Chief Finance Officer in accordance with this policy.

17.3.2 There is some concern that the UK sovereign rating, which is currently AAA, will be downgraded because of the economic indicators. In the unlikely event that the rating drops to AA- then a report will be presented to members detailing options for the way forward in the event of a further fall.

17.3.3 The country limit will be reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

17.4 **Investment Strategy**

17.4.1 In-house funds: The Councils in-house managed funds are derived from core balances and cash flow activity. The major part of these funds would normally be available for medium-term investments (less than 3 years). However the policy of running down balances to reduce credit risk and revenue costs from borrowing as against minimal investment returns, means that such medium-term investments

are very unlikely. Officers will monitor this position and if advantageous, then investments will accordingly be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

17.4.2 Shown below are investments already made that extend into 2010/2011

	<i>Amount £m</i>	<i>Maturity</i>	<i>Rate</i>
<i>NatWest Bank (Flippable Range Accrual)</i>	<i>10</i>	<i>26/09/2011</i>	<i>0.35% over 3mth LIBOR reset every 3 months. Current rate 0.955%</i>
<i>Bank of Scotland</i>	<i>5</i>	<i>08/04/2010</i>	<i>1.1%</i>

17.4.3 Bank Rate has been unchanged at 0.50% since March 2009 although most commentators now expect rates to commence rising in quarter 3 of 2010 and then to rise steadily from thereon to 4.5% by the end of 2012/2013.

17.4.4 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

17.5 *End of year investment report*

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

17.6 *External fund manager*

17.6.1 £22m of the Council's funds are externally managed on a discretionary basis by Investec Asset Management.

17.6.2 The Council's external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines, duration and other limits in order to contain and control risk.

17.6.3 Investec are currently forecasting a return of between 1% and 2% for 2010/11. Investec traditionally have had a significant trading position in gilts etc as opposed to the in-house team that deals more in term deposits. With this fundamental difference in tactics it may be advantageous during 2010/11 to move some in-house funds to Investec Asset Management to take advantage of market conditions. This will be reviewed as the year progresses.

17.7 *Policy on the use of external service providers*

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

17.7.2 The Council uses Natwest (part of Royal Bank of Scotland (RBS)) to provide day to day banking facilities including investment brokerage. The current cost of this service is some £78,000 pa under a contract arrangement scheduled to end in September 2010. Officers are firmly of the opinion that the inconvenience, risk and cost to the organisation of changing this arrangement dictates a different approach

and accordingly a contract extension will be requested to provide officers with the opportunity to review the manner in which this service is procured.

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

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

17.8 ***Scheme of delegation***

17.8.1 The scheme determines the respective responsibilities for Council, Cabinet and Overview and Scrutiny and is set out at appendix 4. Appendix 4 also details the amendments necessary to the constitution to enable the revisions required by the changes to the CIPFA Code. These changes will need to be approved as part of the Treasury Policy and Strategy.

17.9 ***Role of the section 151 officer***

17.9.1 The delegation of functions to the section 151 officer (Chief Finance Officer) is currently from Cabinet but as a consequence of the changes in 17.8.1 the Council assumes direct responsibility for approving Treasury Policy and Strategy as well as Prudential Indicators. Accordingly that delegation will need to change from Cabinet to Council. This is set out in the Constitution (chapter 3, Part 4, section 6.15) as 'to be responsible for all borrowing, investment, and financial decisions, such decisions to be consistent with the Council's treasury policy statement'. The specific areas covered by that responsibility are described in appendix 5.

18. **Kent County Council (KCC) Local Government Reorganisation (LGR) Debt**

18.1 The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. With borrowing costs being relatively low this figure has been decreasing year-on-year as the County has taken on cheaper new debt. However, the County rate remains relatively high compared to current PWLB rates and our own average debt rate of 3.8% for 2009/10. The outstanding principal at 1 April 2010 will be £49.1m and it would be advantageous for the Council to take direct control of its element of the debt portfolio albeit the requirement for nil detriment to both parties is a constraint. Officers will continue to explore opportunities with KCC to achieve transfer to Medway at nil detriment to each authority by 31 March 2011.

Table 6 - Current and Historical Rates of Interest Charged on KCC LGR debt

Year	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Estimate	2010/11 Estimate
Rate	5.77%	5.74%	5.51%	5.08%	5.28%

19. Minimum Revenue Provision

- 19.1 The Minimum Revenue Provision is explained and the Policy Statement for 2010/2011 is set out at Appendix 3.

20. Risk management

- 20.1 A key driver for the review of the code has been the exposure to risk evidenced by the Icelandic investments and more generally by the financial crisis. Risk and the management thereof is a feature throughout this report.

21. Consultation

- 21.1. Officers have consulted extensively with the Council Financial advisor, fund manager and other local authorities during the compilation of this strategy.
- 21.2. Business Support Overview and Scrutiny have scrutinised this report on the 2 February 2010.
- 21.2.1 Immediately prior to the committee meeting the majority of the Overview and Scrutiny committee attended a Treasury Management training session for members from the consultants Sector. The session explained the requirements for effective treasury management and focussed particularly on the new Code. Members were able to question both officers and the advisors on all these matters.
- 21.2.2 At the committee meeting itself members scrutinised the report after an introduction from the Chief Finance Officer. The Chief Finance Officer stated that the full amendments to the constitution were not presented to Overview and scrutiny but would be circulated separately to all members of the committee.
- 21.2.3 Members were keen to continue the attempt to transfer our proportion of the KCC debt from local government reorganisation to be under our full control. The Chief Finance Officer responded that we are committed to transferring the debt, but the difficulty lies in ensuring that the transaction achieves value for money for both KCC and ourselves. Officers will continue to research the issue.
- 21.2.4 There was some debate around the reliability of using sovereign credit ratings when assessing the value of guarantees or support by foreign sovereign states to counterparties with whom we invest. The Finance Support Manager explained the method used of assessing risk and minimising the retained risk by imposing country limits. The Chief Finance Officer added that reliance was not just placed upon the creditworthiness system but the in-house team also formed a judgement based on best intelligence and did everything possible to reduce risk.
- 21.2.5 Members also expressed concern that there could be a lack of governance with the Chief Finance Officer being solely responsible for monitoring the interest rate market and adopting a pragmatic approach to changing circumstances. The Chief Finance Officer explained that it was important that he had the necessary delegations in order to manage the cash flow of the authority and take advantage of opportunities as they arose. However the new Code required a more structured approach to reporting treasury activity to members.

21.2.6 Members asked the Chief Finance Officer whether the Council was using the Asset Life Method in relation to the Council's Minimum Revenue Provision (MRP) and were advised that officers used a mix of methodologies for the MRP calculation including the Asset Life Method where appropriate.

21.2.7 The Business Support Overview and Scrutiny noted the report and recommended it to Cabinet for consideration along with their comments.

21.3 Cabinet considered this report at its meeting on 16 February 2010 and recommended to Council that the Treasury Strategy and associated policies and strategy statements, including the proposed variations to the Constitution set out in Appendix 4, be approved.

22. Financial and legal implications

22.1 The financial and legal positions are set out throughout the main body of the report.

23. Recommendations

23.1 It is recommended that Council considers the comments from the Business Support Overview and Scrutiny and Cabinet; and

23.2 Approves the Treasury Strategy and associated policies and strategy statements including the proposed variations to the Constitution set out in Appendix 4.

Background Papers

CIPFA Treasury Management in the public services guidance notes for Local Authorities Fully revised Third Edition 2009.

CIPFA Treasury Management in the public services code of practice and cross sectoral guidance notes Fully revised second Edition 2009.

CIPFA The Prudential Code for Capital Finance in Local Authorities Fully revised second Edition 2009

Communities and Local Government changes to the capital finance system – consultation November 2009

CIPFA Treasury Management panel bulletin – Treasury Management update December 2009

Background advisory papers held by officers within the Finance Support division.

APPENDICES

1. The revised CIPFA Treasury Management Code of Practice 2009
2. Treasury Management Policy Statement
3. Minimum Revenue Provision
4. Treasury management scheme of delegation as associated amendments to the constitution
5. The treasury management role of the section 151 officer
6. Prudential and Treasury indicators
7. Specified and non specified investments
8. Approved countries for investments

The revised CIPFA Treasury Management Code of Practice 2009

INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

The revised Code has also set out various requirements which have been summarised in paragraph 2.2 of the latest Treasury Management Strategy Statement.

RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMPs), 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.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. Full Council) 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, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. This organisation nominates Business Support Overview and Scrutiny to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. 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.
3. 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

Minimum Revenue Provision

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

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

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

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

- a. equal instalment method – equal annual instalments,
- b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement 2010/11

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/08, and assessed MRP for 2007/08 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Council policy for the calculation of MRP will be:

1. For all Government supported borrowing the 'Regulatory Method' at 4% of the adjusted Capital Financing Requirement (CFR) will be used.
2. The 'Asset Life' method will be utilised for all non supported borrowing, MRP will be charged over a period commensurate with the estimated useful life applicable to the nature of expenditure or the planned duration of the invest to save scheme using either the equal annual instalment method or annuity method if more appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Treasury management scheme of delegation

(i) Full council

- Receiving, reviewing and approving reports on treasury management policies.
- Receiving and reviewing mid year report.
- Approval of annual strategy.

(ii) Cabinet

- Recommend treasury management policies and strategies to Council.
- Review and approve treasury management practices.
- Recommend treasury budget for approval by Council.
- Receive regular monitoring reports on treasury activity.

(iii) Business Support Overview and Scrutiny

- Scrutinise the treasury management policy, strategies and procedures, making recommendations to Cabinet as appropriate.
- Scrutinise the Cabinet performance reports on treasury activity.

Required amendments to the Constitution

Chapter 3 – Responsibility for Functions

Part 4 – Employee Delegation Scheme

Chief Finance Officer	
6.15 Financial:	
<ul style="list-style-type: none"> • To be responsible for all borrowing, investment, and financial decisions, such decisions to be consistent with the Council’s treasury policy statement; 	<u>Council</u> Cabinet

Chapter 3 – Responsibility for Functions

Part 2 – Responsibility for Council Functions

2. Audit Committee

- To provide independent assurance on the adequacy of the risk management framework and the associated control environment, including consideration of the Council's approach to risk management and the assurance framework, the production of the annual governance statement, arrangements for delivering value for money and the Council's anti-fraud arrangements and anti-corruption measures;
 - To receive reports in line with the Council's whistleblowing policy.
 - To monitor the Council's compliance with its own published standards and to consider any proposals for changes to Financial Rules, Codes of Practice on tenders and contracts;
 - To monitor financial policies and processes, including endorsement of improvement plans to strengthen the control environment;
 - To approve the annual governance statement;
 - To approve the annual accounts, and Annual Treasury Outturn Report;
 - To discuss with the external auditor new accounting standards, changes to the reporting framework and the basis of the annual audit, including the content of performance work;
 - To receive all reports by the external auditor including all performance reports and the annual audit and inspection letter;
 - To oversee Internal Audit activity;
- To provide an independent review of the Council's financial and non-financial performance.

Chapter 4 Part 5 Overview and Scrutiny Rules

22.2 Specific terms of reference

(a) Business Support Overview and Scrutiny Committee

- (xvi) to assist the Council in the development of a 3-year budget strategy;
- (xvii) to review the management of resources made available to the Council and to scrutinise its financial management, property and asset acquisition and disposal and capital programme;
- (xviii) to assist the Cabinet in the development of a Council wide property and asset strategy;
- (xix) to scrutinise the Council's Treasury Management, Investment Strategy, Minimum Revenue Provision Policy

Chapter 4 Part 6 Finance Rules

7. Investments

7.1 Arrangements

- (a) Investments and utilisation of monies in hand shall be undertaken by the Chief Finance Officer within the approved treasury limits.
- (b) The selection of external fund managers shall be subject to the prior approval of the Cabinet.
- (c) All investments are to be made in the name of the Council.
- (d) The Chief Finance Officer shall be responsible for the safe custody of securities and shall institute procedures for establishing the credit worthiness of organisations in which Council monies are invested.
- (e) The Chief Finance Officer shall report to the Business Support Overview & Scrutiny Committee, Cabinet and Council before the start of the new financial year ~~Cabinet in March~~ on borrowing and investment strategies for the ensuing year and to Cabinet and Audit Committee not later than September on treasury management activities in the previous year.

7.2 Treasury policy statement

- (a) The treasury policy statement for the Council must be complied with in all aspects as regards the investment of monies. This statement shall be updated as necessary by a report of the Chief Finance Officer.
- (b) The Council adopts the key recommendations of CIPFA's Code of Practice on Treasury Management in Local Authorities (the code) Revised Treasury Management in the Public Services: Code of Practice (the code) 2001 as described in Section 4 of that code.
- (c) Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:
 - A Treasury Management Policy Statement (TMPS) stating the policies and objectives of its treasury management and the

approach to risk management of its treasury management activities.

- Suitable Treasury Management Practices (TMP_s) 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.
- (d) ~~The Cabinet~~Council -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, a mid-year review and Audit Committee shall receive an annual report after its close, in the form of prescribed in its TMP_s.
- (e) ~~Cabinet~~ Council ~~The Cabinet~~ delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Chief Finance Officer who will act in accordance with the Council's policy statement and TMP_s and if a CIPFA member, to CIPFA's Standard of Professional Practice Treasury Management.
- (f) ~~Cabinet~~ Council nominates ~~The Cabinet will continue to have executive responsibility for the treasury management functions with Business Support Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy policies..monitoring treasury management policies and practices, including performance.~~

The treasury management role of the section 151 officer

The S151 (responsible) officer

- Monitor the cashflow position of the authority
- Make such borrowing and investment decisions as necessary to be consistent with strategies as approved by Council.
- To maintain the bank balance within approved limits.
- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submit regular treasury management policy reports
- Submit budget proposals and budget variations
- Receive and review treasury management information reports
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit coverage of treasury functions, and liaison with external audit
- Recommend the appointment of external service providers
- Maintain of the in-house counterparty approved list
- Monitor the Investec counterparty approved list.

Prudential and Treasury Indicators

Prudential indicators	2010/11	2011/12	2012/13
	estimate	estimate	estimate
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	103,363	6,574	3,776
HRA (applies only to housing authorities)	4,150	4,150	4,150
TOTAL	107,513	10,724	7,926
Ratio of financing costs to net revenue stream			
Non - HRA	3.19%	2.94%	2.69%
HRA (applies only to housing authorities)	14.53%	14.64%	14.72%
Net borrowing requirement			
brought forward 1 April	94,363	100,077	104,668
carried forward 31 March	100,077	104,668	109,268
in year borrowing requirement	5,714	4,591	4,600
In year Capital Financing Requirement			
Non - HRA	(5,258)	3,176	(726)
HRA (applies only to housing authorities)	735	735	735
TOTAL	(4,523)	3,911	9
Capital Financing Requirement as at 31 March			
Non - HRA	211,211	214,387	213,661
HRA (applies only to housing authorities)	21,939	22,674	23,409
TOTAL	233,150	237,061	237,070
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	(4.53)	(9.52)	(9.26)
Increase in average housing rent per week (housing authorities only)	2.53	2.33	2.65

Treasury management indicators	2010/11	2011/12	2012/13
	estimate	estimate	estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	418,165	420,267	418,077
other long term liabilities	8	8	8
TOTAL	418,173	420,275	418,085
Operational Boundary for external debt -			
borrowing	380,150	382,061	380,070
other long term liabilities	8	8	8
TOTAL	380,158	382,069	380,078
Actual external debt	173,361	163,325	153,312
Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%
Net interest re fixed rate borrowing / investments			
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
Net interest re variable rate borrowing / investments			
Upper limit for total principal sums invested for over 364 days (per maturity date)	150,000	150,000	150,000

Maturity structure of new fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	25%

Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable (If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate)

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Managers

	* Minimum Credit Criteria	Use
Banks nationalised by high credit rated (sovereign rating) countries	(i) and (ii)	In-house and Fund Managers
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries*	Sovereign rating AA-	In-house and Fund Managers
UK Government support to the banking sector**	Sovereign rating AA- or will we always use UK no matter what our rating	In-house and Fund Managers

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

* e.g. Italy (AA-), Australia (AA+), Singapore (AAA), Hong Kong (AA)

**Banks eligible for support under the UK bail-out package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

	* Minimum Credit Criteria	Use
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house buy and hold and Fund Managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house buy and hold and Fund Managers
Treasury Bills	--	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers
2. Money Market Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

N.B. buy and hold may also include sale at a financial year-end and repurchase the following day in order to accommodate the requirements of SORP.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use	Max investment limit	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	(i)	In-house	£10m	Lower of 5 years or sector creditworthiness colour.

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	40%	5 years
Term deposits – UK Government		In-house and Fund Manager	40%	5 years
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
Certificates of deposits issued by banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
UK Government Gilts	AAA	In-house and Fund Managers	100% Investec 40% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and Fund Managers	100% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

(iii)= Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years

Approved countries for investments (current)

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Australia
- Belgium

AA

- Hong Kong
- Japan
- Kuwait
- Portugal

AA-

- Italy
- Saudi Arabia