

CHESHIRE POLICE AUTHORITY TREASURY MANAGEMENT STRATEGY 2010/11

INTRODUCTION

1. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential indicators for the next three years to ensure that its capital investment plans are affordable, prudent, and sustainable.
2. The Act therefore requires the Authority to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.
3. The Strategy also includes the Authority's 2010/11 minimum revenue provision strategy.
4. The suggested treasury management strategy for 2010/11 leading market forecasts covers the following aspects of the treasury management function, and is based on interest rates. The strategy covers:
 - Treasury limits in force that will limit the treasury risk and activities of the Authority
 - Prudential indicators
 - Current treasury position
 - Borrowing requirement
 - Prospects for interest rates
 - Borrowing strategy
 - Debt rescheduling opportunities
 - Investment strategy (see Appendix 1a)
 - Minimum revenue provision strategy (see Appendix 1b)
5. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Authority to produce a balanced budget. In particular, Section 32 requires an 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 higher revenue costs arising from:
 - (a) higher interest charges caused by increases in borrowing to finance additional capital expenditure, and
 - (b) any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

TREASURY LIMITS FOR 2010-13

6. It is a statutory duty, under Section 3 of the Local Government Act 2003 and supporting regulations, for the Authority to decide and keep under review how much it can afford to borrow. The amount determined is termed the 'affordable borrowing limit' – the 'Authorised Limit' represents this legislative limit.
7. The Authority must have regard to the Prudential Code when setting its 'Authorised Limit'. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future Council Tax levels is 'acceptable'. It is important to understand, however, that the Indicators themselves, which are set out below, do not have an inherently right or wrong answer. They are not intended as comparator information between different authorities but are designed to inform support and record local decision making.

PRUDENTIAL INDICATORS FOR 2010/11 - 2012/13

8. The CIPFA Prudential Code provides a framework whereby the Authority can decide what it can afford to spend or borrow in respect of capital investment. The objective in considering affordability is that capital investment remains within sustainable limits, particularly in relation to the impact on the Council Tax.
9. This Strategy explains and recommends the prudential indicators for each of the next three years compared with current and previous years. The indicators will be monitored during the year and will be revised by the Authority, if required.

Capital Expenditure

10. The Authority has to make a reasonable estimate of the capital expenditure that it plans to incur in the following three years and after the year-end must record the actual capital expenditure incurred in that year.
11. The Authority's capital programme informs the requirements of these indicators. The estimates for future years are as follows:

Capital Expenditure	£m
2009/10 revised estimate	15.98
2010/11 estimate	7.12
2011/12 estimate	6.18
2012/13 estimate	4.98

Capital Financing Cost Indicators

12. One of the indicators of affordability is the estimated ratio of the Authority's capital financing costs to its net revenue stream in percentage terms. This indicator shows the proportion of the revenue budget spent on capital financing costs. If the ratio is increasing rapidly over time then a larger proportion of revenue resources is being taken up by capital financing costs, which could be used for other elements of the Authority's budget.

Ratio of financing costs to net revenue stream	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
Gross Financing Costs	1.32	1.40	1.91
Net Financing Costs	1.10	1.18	1.69

Capital Financing Requirement

13. The capital financing requirement indicator is a notional figure which shows the Authority's theoretical need to borrow to fund capital expenditure, which is the maximum level of borrowing expected. The estimates for future years are as follows:

Capital Financing Requirement	£m
2009/10 revised estimate	23.93
2010/11 estimate	23.17
2011/12 estimate	27.02
2012/13 estimate	28.09

Net Borrowing Requirement

14. There is a clear linkage between the Authority's capital financing requirement (CFR) indicators and its net external borrowing. Within the code there is a key indicator of prudence that ensures that, over the medium term, net borrowing is only for a capital purpose. This can be demonstrated by comparing net external borrowing shown in the table below to the total CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Net external borrowing should not exceed, except in the short term, this limit.

Net External Borrowing	£m
2009/10 revised estimate	12.68
2010/11 estimate	14.85
2011/12 estimate	19.75
2012/13 estimate	21.46

15. Whilst the capital financing requirement above has increased, there has been a decrease in the actual investments held. This reflects the use of capital receipts held to contribute to the financing of the capital programme.
16. The previous two tables show the Authority is fully compliant with this indicator as forecast net borrowings are well within the CFR for the next three years.

Impact of Capital Investment Decisions on Council Tax

17. The indicator is intended to show the effect on Council Tax of approving new capital expenditure in the capital programme and the figures take account of the amount receivable from the Government in connection with supported borrowing.

Impact of capital investment decisions for Band D Council Tax	2010/11 Estimate £p	2011/12 Estimate £p	2012/13 Estimate £p
Impact of capital investment decisions	5.20	5.55	7.98

Authorised Limit

18. The Authority has to set an authorised limit, which is the statutory maximum borrowing permitted, and an operational boundary, which is the normal level of borrowing expected, for external debt.
19. The authorised limits set out below are consistent with the Authority's current commitments, existing plans and the proposals set out in this report for the capital expenditure and financing, and with its approved treasury policy statement and practices. They are based on the most likely, prudent, but not worse case, scenario, with sufficient headroom over and above this to allow for operational management recognising that during the year it may be necessary to exceed the operational boundary in order to take advantage of interest rate movements or to accommodate unusual cashflow movements.

Authorised Borrowing Limit	£m
2009/10 revised estimate	30.61
2010/11 estimate	31.38
2011/12 estimate	34.60
2012/13 estimate	35.74

20. In agreeing these limits, Members should note that the authorised limit for 2010/11 will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003. This indicator being the maximum limit the Authority may borrow at any point in time in the year. If borrowing above this level were needed a report would go to Finance Panel for authorisation to increase the limit, within delegated powers.

Operational Boundary

21. The operational boundary is a key management tool for in-year monitoring. Temporary breach of the operational boundary will not in itself be a cause for concern, although a sustained breach might indicate an underlying issue that would need investigation and action.
22. The operational boundaries below are based on the authorised limit, estimating the Authority's most likely level of borrowing and leasing each year. It includes long term borrowing to fund capital and short term borrowing to meet day to day variations in cash flow but without the additional headroom.

Operational Boundary	£m
2009/10 revised estimate	27.5
2010/11 estimate	29.5
2011/12 estimate	32.0
2012/13 estimate	32.9

Maturity Structure of Debt

23. It is recommended that the Authority sets upper and lower limits for the maturity structure of its debt for the forthcoming year as follows:

Maturity Structure of Police Authority Borrowing	Upper Limit %	Lower Limit %
Under 12 months	15	0
12 months and within 24 months	15	0
24 months and within 5 years	25	0
5 years and 10 years	25	0
10 years and above	95	50

24. The above percentages are the ranges for the projected borrowing maturing in each year out of the total projected borrowing. The indicator is designed to be a control over the Authority having large concentrations of fixed interest rate debt needing to be replaced at any one time and thus being at risk of having to borrow large amounts when interest rates may be unfavourable.

Fixed Interest Rate Exposure

25. The table below shows the Authority's fixed interest rate exposure indicator for the next three years. This indicator shows the percentage of borrowing that can be undertaken at fixed interest rates. Up to 100% of borrowing can be at fixed interest rates but not less than 75% can be at fixed interest rates. Again, this indicator is set at levels to reduce the risk from interest rate movements.

Fixed Interest Rate Exposure	2010/11 %	2011/12 %	2012/13 %
Upper Limit - Fixed Interest Rates	100	100	100
Lower Limit - Fixed Interest Rates	75	75	75

Variable Interest Rate Exposure

26. The following indicator shows the percentage of borrowing that can be undertaken at variable interest rates. The purpose of the indicator is to restrict variable rate borrowing in order to reduce the risk from sudden movements in interest rates. The Authority sets its upper limit for borrowing, reflecting variable interest rates less investments that are variable rate investments, at 25%.

Variable Interest Rate Exposure	2010/11 %	2011/12 %	2012/13 %
Upper Limit - Variable Interest Rates	25	25	25

27. Currently the majority of the Authority's debt is fixed interest rate with a weighted average interest rate of 4.33%. This includes the LOBOs (Lenders Option Borrowers Option) loan which is fixed for set periods, but allows for the rate to be reviewed at the end of each period.

Investment Periods

28. It is recommended that the Authority sets a limited on the amount invested for periods longer than one year of £3M in total for 2010/11, with the maximum period for any one loan being three years.

Current Portfolio Position

29. The Authority's treasury portfolio position at 15 February 2010 comprised of:

	Principal £m	Average Interest Rate %
Public Works Loan Board	16.3	4.7
Money Market	6.0	4.0
Total Debt	22.3	4.3
Total Investments	10.9	0.9

PROSPECTS FOR INTEREST RATES

30. Warrington BC who administers the Authority's Treasury Management contract use Sector Treasury Services as treasury adviser and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives the Sector forecasted view of interest rate movements:-

Sector's interest rate forecast – January 2010

	QE4 2009	QE1 2010	QE2 2010	QE3 2010	QE4 2010	QE1 2011	QE2 2011	QE3 2011	QE4 2011	QE1 2012	QE2 2012	QE3 2012	QE4 2012	QE1 2013
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.25%	2.75%	3.25%	3.50%	3.75%	4.25%	4.25%	4.50%
5yr PWLB Rate	2.85%	3.05%	3.20%	3.30%	3.40%	3.60%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB Rate	3.90%	4.00%	4.05%	4.15%	4.30%	4.45%	4.60%	4.80%	4.90%	5.00%	5.10%	5.10%	5.15%	5.15%
25yr PWLB Rate	4.40%	4.55%	4.65%	4.70%	4.80%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB Rate	4.45%	4.60%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

31. Sector's current interest rate view is that the bank rate will:

- Stay at the current level till Q3 2010.
- Increase to 1.25% by Q4 2010.
- It is then expected to increase to 3.75% by Q4 2011 and 4.5% by Q1 2013
- There is downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

These assumptions have been used to determine the treasury management budget projections included as part of the 2010/11 revenue budget and future years' projections.

Other forecasts

32. The data below shows a variety of forecasts published by a number of institutions. The first two are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major city banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Capital Economics Interest Rate Forecast – January 2010

	Q/E 4 2009	Q/E 1 2010	Q/E 2 2010	Q/E 3 2010	Q/E 4 2010	Q/E 1 2011	Q/E 2 2011	Q/E 3 2011	Q/E 4 2011
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.85%	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
10yr PWLB Rate	3.75%	3.15%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
25yr PWLB Rate	4.25%	3.95%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
50yr PWLB Rate	4.35%	4.15%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%

Ubs Interest Rate Forecast (For Quarter Ends) – January 2010

	Q/E 4 2009	Q/E 1 2010	Q/E 2 2010	Q/E 3 2010	Q/E 4 2010	Q/E 1 2011	Q/E 2 2011	Q/E 3 2011	Q/E 4 2011
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.85%	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
10yr PWLB Rate	3.75%	3.15%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
25yr PWLB Rate	4.25%	3.95%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
50yr PWLB Rate	4.35%	4.15%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%

33. **HM Treasury** – December 2009 summary of forecasts of 23 city and 12 academic analysts for Q4 2009 and 2010. Forecasts for 2010 – 2013 are based on 21 forecasts in the last quarterly forecast – November 2009

BANK RATE FORECAST	actual	quarter ended		annual average Bank rate			
		Q4 2009	Q4 2010	ave. 2010	ave. 2011	ave. 2012	ave. 2013
Median	0.50%	0.50%	1.30%	0.70%	1.80%	3.00%	3.70%
Highest	0.50%	0.50%	2.30%	1.30%	3.30%	4.30%	4.60%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.40%

ECONOMIC BACKGROUND

34. The credit crunch storm of August 2007 eventually fed through to the near collapse of the world banking system in September 2008. This then pushed most of the major economies of the world into a very sharp recession in 2009 accompanied by a dearth of lending from banks anxious to rebuild their weakened balance sheets. Many governments were forced to recapitalise and rescue their major banks and central banks precipitately cut their rates to 0.10-1.00% in order to counter the recession.
35. The long awaited start of the growth eventually came in Quarter 3 2009 in the US and EU. However, there was disappointment that the UK failed to emerge from recession in Quarter 3.
36. At the meeting of the Money Policy Committee on 6 and 7 January 2010, they reported that “it was increasingly probable that CPI inflation would rise to well above the 2% target in the early part of 2010 and remain elevated for several months”. However, their medium term outlook for inflation remains at 2%.

37. The Authority has adopted Sector's view that there will be a moderate view to growth, with long term gilt yields and PWLB rates rising highly. The overall balance of risks is weighted to the downside, i.e. the pace of economic growth disappoints and Bank Rate increases are delayed and/or lower. There is an identifiable risk of double dip recession and deleveraging created a downward spiral of falling demand, falling jobs and falling prices and wages leading to deflation but this is considered to be a small risk and an extreme view at the current time on the basis of current evidence.

BORROWING STRATEGY

38. In general, the Authority will borrow for one of two purposes – to finance cash flow in the short-term or to fund capital investment over the longer term.
39. The Authority's capital investment plans (in cash terms) demonstrate an underlying need to borrow of £0.3m in 2010/11, £4.9m in 2011/12 & £2.7m in 2012/13. This is dependent on the level of the Government's capital grant allocation post 2009/10, which is currently unknown.
40. A key aim of the treasury management strategy is to minimise the cost of the Authority's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period of time. This reduces the impact on the revenue budget of interest payments.
41. The majority of the Authority's borrowing is on a fixed interest rate basis with an overall weighted average of 4.36% which is favourable to the current rates available. The Authority holds one loan (£6m) that is subject to semi variable interest rates, which has six monthly review periods when the bank can amend the rate or the Authority can repay the loan if the new rate is deemed unacceptable. This loan has a competitive rate, but is still higher than the current inter-bank interest rate. Therefore, the Authority's exposure to increasing interest rates is minimal on its current loan portfolio. Any new loans taken for future capital financing or loan repayment will be subject to the interest rates applicable at that time.
42. The Authority is expected to borrow from the Public Works Loans Board during the strategy period, unless there is a better valued loan available through other sources. Sectors' forecasts of the PWLB borrowing rates expected to be available over the strategy period are:
- a) The 50 year PWLB rate is expected to remain around current levels of about **4.45% - 4.75%** until Q3 2010 when it is forecast to rise to **4.90%**. The rate then edges up gradually to reach **5.45%** at the end of the forecast period;
 - b) The 25 year PWLB rate is expected to drop to **4.40%** in Q4 2009 and rise in Q1 2010 eventually reaching **5.35%** at the end of the forecast period;
 - c) The 10 year PWLB rate is expected to drop to **3.90%** in Q3 2009 but then to start rising again in Q2 2010 to eventually reach **5.15%** at the end of the forecast period;
 - d) The 5 year PWLB rate is expected to fall to a floor of **2.85%** during Q3 2009; the rate then starts rising in Q1 2010 to eventually reach **4.85%** at the end of the forecast period.

43. In view of the above forecast the Authority's borrowing strategy will be based upon the following information.
- Rates are expected to gradually increase during the year, so it should therefore be advantageous to time new long term borrowing for the start of the year when 25 year PWLB rates fall back to or below the central forecast rate of about 4.65%, a suitable trigger point for considering new fixed rate long term borrowing.
 - Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing.
 - Under 10 year PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing which will spread debt maturities away from a concentration in long dated debt
 - There is expected to be little difference between 25 year and 50 year rates thus loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This would maximise the potential for debt rescheduling and allow the Authority to rebalance its debt maturity profile.
44. Consideration will also be given to borrowing fixed rate market loans at 25 – 50 base points below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
45. These forecasts are based around an expectation that there will normally be variations of +/- 25bp during each quarter around these average forecasts in normal economic and political circumstances. However, greater variations can occur if should there be any unexpected shocks to financial and/or political systems.
46. The main sensitivities of the interest rate forecast are likely to be the two scenarios below:
- a) if it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap;
 - b) if it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

47. The general aim of this treasury management strategy is to monitor the levels of debt and cash investment over the next three years in order to minimise the credit risk incurred by holding investments. A major factor, which will be carefully considered, is the difference between borrowing rates and investment rates to ensure the Authority obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
48. Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be 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.
49. However, short term savings by avoiding new long term external borrowing in 2010/11 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
50. The Authority has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 has meant that large premiums would be incurred by such action and would also do so in the near term; such levels of premiums cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or when repayment rates rise substantially.
51. The Authority's policy for 2010/11 will be to run down our investments to maximise our returns and minimise our risks. However we will assess the opportunity cost of borrowing long term dependent upon interest rate movements.
52. Against this background, caution will be adopted with the 2010/11 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

53. The Authority 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 Authority can ensure the security of such funds.
54. In determining whether borrowing will be undertaken in advance of need the Authority 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.

DEBT RESCHEDULING

55. The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises. Any rescheduling will be in accordance with the strategy position outlined in the paragraph above.
56. The Authority is not expected to reschedule any of its PWLB debt in 2010/11 due to the costs (premiums) involved in doing so. However, if the LOBO loan is called in 2010/11 it is expected that the most likely outcome will be replacement with PWLB borrowing, but all options will be reviewed to ensure value for money.
57. The reasons for any rescheduling to take place will include:
 - The generation of cash savings at minimum risk;
 - Help fulfil the borrowing strategy outlined above;
 - Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
58. All rescheduling will be reported to the Finance Panel as part of the quarterly budget monitoring reporting.
59. There has been much discussion as to whether the size of the spread between long term PWLB repayment and new borrowing rates should be revised (downwards) in order to help local authorities currently dissuaded from using investment cash balances to repay long term borrowing and thereby reduce counterparty and interest rate risk exposure. 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 this authority will monitor developments in this area and may amend its strategy if significant changes are introduced.

**CHESHIRE POLICE AUTHORITY
ANNUAL INVESTMENT STRATEGY 2010/11**

1. The aims of the investment strategy in order of priority is to:
 - Maintain capital security
 - Achieve a return greater than would be achieved by internal investment
 - Maintain policy flexibility
2. The Treasurer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.
3. The Authority invests surplus cash balances only with certain approved organisations, as security of funds is of primary importance. All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations.

INVESTMENT POLICY

4. The Authority will have regard to the Government'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 recently revised Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services Code of Practice and Cross-Sector Guidance Notes ('the CIPFA TM Code'). The Authority's investment priorities are:
 - The security of capital
 - The liquidity of its investments
5. The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Authority's risk appetite is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Authority will not engage in such activity.
6. Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Authority's treasury management practices statement:

Specified Investments (maturities up to one year)

- Bank and Building Society Term Deposits
- Other Local Authority Term Deposits
- Debt Management Agency Deposit Facility.

Non-Specified Investments (maturities over one year)

- Bank and building society term deposit
- Other local authority term deposits.

Other non-specified investments

- Fixed term deposits with variable rate and variable maturities
- Money market funds.

Credit ratings

7. For 2010/11 the Authority will only invest in organisations and up to the limits contained in the Authority's Treasury Management Statement of Practice as adopted by the Authority as part of the CIPFA Code of Practice for Treasury Management.
8. The Authority uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating the equivalent, Moody's rating will be used instead. The Authority is alerted to changes in the Fitch ratings through Warrington BC's use of the Sector Creditworthiness service. If a downgrade results in the counterparty no longer meets the Authority's minimum criteria, its further use for a new investment will be withdrawn immediately. Also if a body is placed on a negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

Nationalised banks

9. In the UK we have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible. The Authority will accept this update credit rating for any UK nationalised banks.

Blanket guarantees on all deposits

10. The current banking crisis has resulted in some countries supporting their banking system by giving a blanket guarantee on all deposits e.g. Ireland. The Authority will assess the strength of each countries guarantee and the credit rating of the counter party in making a decision as to whether to invest in that foreign country.

Country limits

11. The Authority 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).

Other Sources

12. Alongside the use of the above information, stock markets are monitored daily together with the business news to ensure that any pertinent information is fed into the investment decision making as soon as possible. Alternative types of investment are continually sought and any that offer potentially favourable returns are subject to due diligence reviews including seeking references from other public sector bodies and organisations etc.

Interest rate outlook

13. The bank rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 3 of 2010 and then to rise steadily thereafter. Bank rate forecasts for the year ends are as follows:-

- 2009 0.50%
- 2010 1.25%
- 2011 3.75%

14. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. The Authority will therefore avoid locking into longer term deals while investment rates are at historically low levels.

Investment strategy

15. Prudence will drive the Authority's investment strategy in 2010/11 due to the volatility and uncertainty that exists in the world's financial markets. Lending will only take place to institutions at the higher end of the credit rating spectrum. Due to interest rates being historically low and to maximise liquidity investments will be of a short term nature.
16. In order to minimise risk, the Authority will look to diversify its investment portfolio by investing in other investment vehicles such as money market funds. The driving force of our strategy will be maintaining the security of capital and investment liquidity. The Authority will use a combination of Credit Ratings, Sovereign Ratings, Guarantees and any other relevant information sources to assess the credit quality of financial institutions before placing investments.

Liquidity of Investments

17. The maximum period of investment of Authority money will be three years. There will be no more than **£3m** committed for a period over 1 year.

End of Year Treasury Performance Report

18. At the end of the financial year the Treasurer will report on treasury activity in the end of year treasury performance report to the Finance Panel.

MINIMUM REVENUE PROVISION (MRP) STATEMENT

1. All authorities have a legal requirement to set aside money to cover the repayment of debt. The amount of MRP charged needs to be a prudent amount. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which capital expenditure provides benefits, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of the grant.
2. It is proposed that just under half of the MRP for 2010/11 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with the Guidance (Capital Finance and Accounting England Amendment Regulations 2008). Certain expenditures reflected within the debt liability at 31st March 2010 will under delegated powers (known as prudential borrowing) be subject to MRP under option 3 of the Guidance, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method, e.g., capital expenditure on a new building will be related to the estimated life of that building. For finance leases and PFI schemes on the Balance Sheet the MRP will be the equivalent principal repayment allocated to the associated liability.
3. The use of this option for certain schemes/expenditures will also result in there being no MRP charge until the year after that in which all expenditures on a scheme, project or other item of capital expenditure have been fully accrued under proper practices, regardless of the extent of such expenditure that has not been accrued at the end of the previous financial year. Items of capital expenditure will only be divided up when considering schemes in this or any other context in cases where two or more major components have substantially different useful economic lives. Assets will not be transferred into the asset register and fixed assets account until complete, in accordance with standard accounting principles.
4. Estimated life periods will be determined under delegated powers. To the extent that expenditures are not on the creation of an asset, and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Authority. However, in the case of long term debtors arising from loans or other types of capital expenditure made by the Authority which will be repaid under separate arrangements, there will be no Minimum Revenue Provision made. The Authority is satisfied that a prudent provision will be achieved after exclusion of these capital expenditures.
5. In view of the variety of different types of capital expenditure incurred by the Authority, which is not in all cases capable of being related to an individual asset e.g. capitalising revenue items, asset lives will be assessed on a basis which 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.
6. The policy will be reviewed on an annual basis. If it is ever proposed to vary the terms of the original statement during any year, a revised statement should be put to the Authority at that time.