

TREASURY MANAGEMENT STRATEGY 2011/12

INTRODUCTION

1. The Local Government Act 2003 (the Act) and supporting regulations requires the Police Authority (the Authority) 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 2011/12 minimum revenue provision strategy.
4. The suggested treasury management strategy for 2011/12 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 2011-14

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'.
7. The Authority must have regard to the Prudential Code when setting its affordable borrowing 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 2011-14

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 Code requires the publication of eight affordability indicators (only 7 are applicable to police authorities). 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.

PRUDENTIAL INDICATOR 1 - 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 and are based on cash spend rather than forecast capital expenditure:

Capital Expenditure	£000
2010/11 three quarter review estimate	5,958
2011/12 estimate	7,190
2012/13 estimate	5,353
2013/14 estimate	3,558

PRUDENTIAL INDICATOR 2 - CAPITAL FINANCING REQUIREMENT

12. 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	£000
2010/11 revised estimate	25,277
2011/12 estimate	24,006
2012/13 estimate	23,961
2013/14 estimate	22,194

PRUDENTIAL INDICATOR 3 NET BORROWING/CAPITAL FINANCING REQUIREMENT

13. 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	£000
2010/11 revised estimate	10,978
2011/12 estimate	11,366
2012/13 estimate	12,270
2013/14 estimate	13,154

14. Although the capital programmes going forward have been reduced and therefore limited borrowing will be required, the capital financing requirement steadily increases reflecting the reduction in investments as the remaining reserves and receipts are used. There is potential for additional capital receipts going forward and as these are confirmed the increases will reduce.
15. 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.

PRUDENTIAL INDICATOR 4 – AUTHORISED LIMIT

16. 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.
17. The authorised limits set out in the next table 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.

Authorised Borrowing Limit	£m
2010/11 revised estimate	56,972
2011/12 estimate	58,389
2012/13 estimate	58,048
2013/14 estimate	57,708

18. In agreeing these limits, Members should note that the authorised limit for 2011/12 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 Committee for authorisation to increase the limit, within delegated powers.

PRUDENTIAL INDICATOR 5 – OPERATIONAL BOUNDARY

19. 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.

20. 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
2010/11 revised estimate	58,066
2011/12 estimate	56,328
2012/13 estimate	56,093
2013/14 estimate	56,280

PRUDENTIAL INDICATOR 6 – CAPITAL FINANCING COST INDICATORS

21. 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.

	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Ratio of financing costs to net revenue stream			
Gross Financing Costs	1.20%	1.37%	1.46%
Net Financing Costs	0.97%	1.25%	1.34%

PRUDENTIAL INDICATOR 7 – IMPACT OF CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

22. 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.
23. Again this indicator shows that there is a peak in 2013/14 reflecting the impact of the potential additional borrowing for Transforming Business Services in 2011/12 (subject to approval) and then will start to decline as the capital programme is reduced, funding is provided by revenue contributions and a consequential limit on further borrowing.

Impact of capital investment decisions for Band D Council Tax	2011/12 Estimate £p	2012/13 Estimate £p	2013/14 Estimate £p
Impact of capital investment decisions	5.97	6.40	6.41

PRUDENCE INDICATORS FOR 2011-14

24. There are five prudence indicators required under the code. In order to ensure long term affordability, decisions have also to be prudent and sustainable in the long-term. The prudence indicators are concerned with the Authority's borrowing and investment activities.

PRUDENCE INDICATOR 1 – CIPFA CODE OF PRACTICE

25. The predominant indicator is that the Authority should follow the CIPFA Code of Practice for Treasury Management in the Public Services. At its meeting on 23 February 2010 (Minute 99) the Authority adopted the revised Treasury Management in Public Services Code of Practice.

PRUDENCE INDICATOR 2 – MATURITY STRUCTURE OF DEBT

26. 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

27. 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.

PRUDENCE INDICATOR 3 – FIXED INTEREST RATE EXPOSURE

28. The next table 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	2011/12 %	2012/13 %	2013/14 %
Upper Limit - Fixed Interest Rates	100	100	100
Lower Limit - Fixed Interest Rates	75	75	75

PRUDENCE INDICATOR 4 – VARIABLE INTEREST RATE EXPOSURE

29. 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%.

Upper Limit - Variable Interest Rate Exposure	2011/12 %	2012/13 %	2013/14 %
Variable Interest Rates	25	25	25

30. Currently the majority of the Authority's debt is fixed interest rate with a weighted average interest rate of 4.22%. 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.

PRUDENCE INDICATOR 5 – INVESTMENT PERIODS

31. It is recommended that the Authority sets a limit on the amount invested for periods longer than one year of £3million in total for 2011/12, with the maximum period for any one loan being three years.

CURRENT PORTFOLIO POSITION

32. The Authority's treasury portfolio position at the beginning of January 2011 comprised of:

	Principal £000	Average Interest Rate %
Fixed Rate Funding:		
Public Works Loan Board	17,230	4.30
Money Market	6,000	3.99
Total Debt	23,230	4.22
Total Investments	20,989	0.84

PROSPECTS FOR INTEREST RATES

33. Warrington Borough Council, who administers the Authority's Treasury Management contract, use Sector Treasury Services as treasury advisers 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 2011

	QTR 1 2011	QTR 2 2011	QTR 3 2011	QTR 4 2011	QTR 1 2012	QTR 2 2012	QTR 3 2012	QTR 4 2012	QTR 1 2013	QTR 2 2013	QTR 3 2013	QTR 4 2013	QTR 1 2014
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
5yr PWLB Rate	3.00%	3.10%	3.20%	3.30%	3.50%	3.80%	4.10%	4.30%	4.40%	4.50%	4.70%	4.90%	5.00%
10yr PWLB Rate	4.10%	4.10%	4.20%	4.30%	4.40%	4.60%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25yr PWLB Rate	5.10%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB Rate	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%	5.50%	5.60%	5.60%	5.60%	5.60%	5.70%	5.70%

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

- Stay at the current level till Q4 2011;
- Then increase steadily each quarter with a larger rise in Q1 2013;
- Finally increasing to 3.25% by Q4 2013.

These assumptions have been used to determine the treasury management budget projections included as part of the 2011/12 Revenue Budget Projections.

Other forecasts

35. The data below shows a variety of forecasts published by various 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.

CAPITAL ECONOMICS INTEREST RATE FORECAST – JANUARY 2011

	QTR 1 2011	QTR 2 2011	QTR 3 2011	QTR 4 2011	QTR 1 2012	QTR 2 2012
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
10yr PWLB Rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
25yr PWLB Rate	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
50yr PWLB Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

UBS INTEREST RATE FORECAST (FOR QUARTER ENDS) – JANUARY 2011

	QTR 1 2011	QTR 2 2011	QTR 3 2011	QTR 4 2011
Bank Rate	0.50%	0.50%	7.50%	1.00%
10yr PWLB Rate	4.10%	4.30%	4.50%	4.60%
25yr PWLB Rate	5.10%	5.10%	5.20%	5.30%
50yr PWLB Rate	5.20%	5.20%	5.30%	5.40%

HM Treasury – The current Q4 2010 and 2011 forecasts are based on the October 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in August 2010.

	Actual	QTR4 2010	QTR4 2011	Average 2010	Average 2011	Average 2012	Average 2013	Average 2014
Median	0.50%	0.50%	0.90%	0.50%	1.00%	1.90%	2.80%	3.40%
Highest	0.50%	0.80%	3.20%	0.60%	2.10%	3.10%	4.10%	5.30%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	1.20%

ECONOMIC BACKGROUND

36. The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. Ireland also received support through an EU package.
37. The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Eurozone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.
38. Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.
39. In Sector's view there will be moderate growth, with long term gilt yields and PWLB rates likely to rise. The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and de-leveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk
40. The Confederation of British Industry has said that interest rates will need to start rising in the second quarter of 2011, starting with 0.25% increments and accelerating to 0.50% to reach a level of 2.75% by the end of 2012. They said that if the MPC do not react to increased energy and commodity prices soon, they risk losing credibility. There is a growing feeling in the market that unless something is done soon, inflation will become entrenched and more extreme tightening will become necessary.

BORROWING STRATEGY

41. 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.
42. The Authority's capital investment plans (in cash terms, rather than capital budgets) demonstrates an underlying need to borrow of £1m in 2010/11, £1.5m in 2011/12, £0.5m in 2012/13 and £3m (this includes repayment of a maturing loan) in 2013/14.

43. 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.
44. The majority of the Authority's borrowing is on a fixed interest rate basis with an overall weighted average of 4.22% 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.
45. 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 rise steadily from current level of **5.2%** to **5.7%** by the Q4 in 2013;
 - b) The 25 year PWLB rate will also rise throughout the period at similar level to the 50 year rate;
 - c) The 10 year PWLB rate is currently at **4.1%** but rises throughout the period to **5.4%** by Q1 in 2014;
 - d) The 5 year PWLB rate shows the most change throughout the period moving from its current rate of **3%** to **5%** by the start of 2014.
46. These forecasts are based on 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. For example, as a result of the government's spending review a 1% increase in PWLB interest rates occurred in October 2010.
47. 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.

48. With rates expected to be lower at the middle to the end of the year than earlier on the Authority will focus its borrowing on this period. Depending on the rate structure throughout the year the Authority if advantageous to do so may forward borrow to meet future borrowing requirements if advantageous interest rates can be achieved. All borrowing decisions taken during the year will be reported to the Finance Committee each quarter.

DEBT RESCHEDULING

49. 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 paragraph above.

50. The Authority is not expected to reschedule any of its PWLB debt in 2011/12 due to the costs (premiums) involved in doing so. However, if the LOBO loan is called in 2011/12 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.

51. 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).

52. All rescheduling will be reported to the Finance Committee as part of the quarterly treasury management reporting.

CHESHIRE POLICE AUTHORITY ANNUAL INVESTMENT STRATEGY 2011/12

1. The aims of the investment strategy in priority order 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 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 2011/12 the Authority will only invest in organisations and up to the limits contained in the Authority's Treasury Management Practice Statement 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 on-going financial difficulties 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.

Other Sources

11. Alongside the use of credit ratings, 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

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

- 2010 0.50%
- 2011 1.25%
- 2012 3.75%

13. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. Although the impact of inflation may also play a part in the setting of the base rate. The Authority will therefore avoid locking into longer term deals while investment rates are down at historically low levels.

Investment strategy

14. Prudence will drive the Authority's investment strategy in 2011/12 due to the volatility and uncertainty that continues to exist 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. 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

15. 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

16. 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 Committee.

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. As a result of the proposed capital programme, approximately 42% of the Capital Financing Requirement for 2011/12 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). The remaining amount 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. For example, capital expenditure on a new building will be related to the estimated life of that building.
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 non-current 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.