Agenda No. 7

Warwickshire Police Authority – 22 February 2010

Treasury Management Strategy 2010/11

Report of the Treasurer to the Police Authority

Recommendations

That:

a) That the Police Authority adopt the revised CIPFA Treasury Management in the Public Services Code of Practice and the revised Treasury Management Policy Statement (see **Appendix G**).

b) That the Treasury Management Strategy and Investment Strategy for 2010/11 be approved;

c) the Prudential Indicators (see **Appendix C**) are noted and approved.

d) That the net borrowing does not exceed the Prudential level specified in **Appendix C**, taking into account current commitments, existing plans, and the proposals in the budget report.

e) That the Authority adopt the MRP strategy set out in **Appendix A.**

f) That authority be delegated to the Treasurer to undertake all the activities listed in **Appendix I** of the report;

1 Introduction

The Revised CIPFA Treasury Management Code of Practice 2009

1.1 In the light of the Icelandic bank situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes and the template for the revised Treasury Management Policy Statement. It is also a requirement of the Code that this Authority should formally adopt the Code. As the Code has been revised, there is a recommendation to this report where the Authority is asked to adopt the revised Code and the revised Treasury Management Policy Statement.

1.2 The revised Code has emphasised a number of key areas including the following:

a) All Authorities 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 Authority's treasury management activities.

c) The Authority'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) Authorities 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 the Police Authority.

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 Authority 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.

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 Authority (this will form part of the updated Treasury Management Practices).

1.3 This treasury management strategy statement has been prepared in accordance with the revised Code. Accordingly, the Authority's Treasury Management Strategy will be approved annually by the Police Authority. 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.

1.4 The proposed reporting arrangements to comply with the requirements of the revised Code are set out as follows:

Area of Responsibility	Authority/Committee/ Officer	Frequency
Treasury Management Policy Statement (revised)	Police Authority	Initial adoption in 2010
Treasury Management Strategy/Annual Investment Strategy/MRP policy	Police Authority	Annually before the start of the year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Updates or Revisions at other times	Police Authority	Ad hoc
Annual Treasury Outturn Report	Police Authority	Annually by 30 September after the end of the financial year
Treasury Management Monitoring Reports	Police Authority	At least half yearly
Scrutiny of Treasury Management Strategy	Police Authority	Annually before the start of the year
Scrutiny of Treasury Management Performance	Police Authority	Annually

Revised CIPFA Prudential Code

1.5 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.

1.6 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.

Revised Investment Guidance

1.7 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 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.

Treasury Management Strategy for 2010/11

1.8 The Local Government Act 2003 (the Act) and supporting regulations require the Authority 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 Authority's capital investment plans are affordable, prudent and sustainable.

1.9 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act), included as paragraph 9 of this report. This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.10 The suggested strategy for 2010/11 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 Authority's treasury advisor, Sector Treasury Services.

1.11 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Authority;
- 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.

Balanced Budget Requirement

1.12 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 a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. 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.

2 Treasury Limits for 2010/11 to 2012/13

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Authority 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 is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate 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 C of this report.

3. Current Portfolio Position

The Authority's treasury portfolio position at 31 January 2010 comprised:

	Principal £m	**Average Rate %**
Fixed Rate Funding		
Public Works Loans Board	**-15.7**	**4.98**
Investments		
In house	**6.6**	**0.25**
Externally managed	**15.0**	**0.40**
Net Debt	**5.9**	**2.3%**

4. Borrowing Requirement

The Authority's borrowing requirement is as follows:

	08/09 Actual £000	**09/10 Probable £000**	**10/11 Estimate £000**	**11/12 Estimate £000**	**12/13 Estimate £000**
New borrowing	Nil	12,357	21,825	10,206	11,006
Replacement borrowing (debt repaid during the year)	Nil	Nil	Nil	Nil	Nil
Total	**Nil**	**12,357**	**21,825**	**10,206**	**11,006**

5 Prudential Indicators for 2010/11 to 2012/13

5.1 Prudential and Treasury Indicators (as set out in tables 3, 4 and 5 in Appendix C to this report) are relevant for the purposes of setting an integrated treasury management strategy. The Authority is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted on 1 April 2002 by the Authority and followed in subsequent Treasury Management Strategies; the revised Code will be adopted on 1 April 2010.

5.2 The Prudential Indicators, as set out in **Appendix C** to this report, are relevant for the purposes of setting an integrated Treasury Management Strategy. The indicators are provisional and based on the currently agreed capital programme.

6 Prospects for Interest Rates

6.1 The Authority has appointed Sector Treasury Services as treasury advisor to the Authority and part of their service is to assist the Authority to formulate a view on interest rates. Appendix B draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector Bank Rate forecast for financial year end (31 March)

- **2010 0.50%**
- **2011 1.50%**
- **2012 3.50%**
- **2013 4.50%**

6.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within Appendix D to this report.

7 Borrowing Strategy

7.1 The Sector forecast for the PWLB new borrowing rate is as follows with a more detailed Sector forecast included in Appendix B.

	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%

7.2 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.

- 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 so therefore 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.

7.3 In normal circumstances, the main sensitivities of the forecast are likely to be the two scenarios noted below. The Authority officers, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g., due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External versus Internal Borrowing

7.4 This Authority currently has a difference between gross debt and net debt (after deducting cash balances) of £12.7m.

Gross and Net Debt Position at Year End	**08/09 Actual £000**	**09/10 Probable £000**	**10/11 Estimate £000**	**11/12 Estimate £000**	**12/13 Estimate £000**
External Debt	-16.1	-27.5	-48.0	-56.4	-65.1
Cash Balances	34.9	14.8	9.2	6.0	6.0
Net Debt	**18.8**	**-12.7**	**-38.8**	**-50.4**	**-59.1**

7.5 The general aim of this treasury management strategy is to reduce the difference between the two debt levels, over the next three years in order to reduce the credit risk incurred by holding investments. The increased precautionary measures taken in the last year has already substantially reduced the level of credit risk, so another 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.

7.6 The next financial year is expected to be one of a continued historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing. The strategy to finance the capital programme through borrowing from 2009/10 onwards increases the level of external debt in order to borrow to fund the Capital Programme, The interest rate of the external debt will be fixed and therefore after the borrowing has been taken out it does not carry a risk in relation to future interest fluctuations.

7.7 Over the next three years, investment rates are therefore expected to be well 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.

7.8 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.

7.9 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 are incurred by such action. 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.

7.10 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

7.11 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.

7.12 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.

8 Debt Rescheduling

8.1 The introduction of the new PWLB rates structure on 1 November 2007 that introduced a spread between the rates applied to new borrowing and repayment of debt, has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date.

8.2 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 with the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Authority's maturity profile as in recent years there has been a skew towards longer dated PWLB.

8.3 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

8.4 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 7 above; and
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

8.5 There has been much discussion as to whether the size of 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 Debt Management Office/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.

9 Annual Investment Strategy

Investment Policy

9.1 The Authority will have regard to the DCLG'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").

9.2 The Authority's investment priorities are: -

(a) the security of capital and

(b) the liquidity of its investments.

9.3 The Authority will also aim to achieve the optimum return on its investments, commensurate with proper levels of security and liquidity. The risk appetite of this Authority is extremely low in order to give overriding and absolute priority to the security of its investments.

9.4 The borrowing of monies purely to invest or onlend and make a return is unlawful and this Authority will not engage in such activity.

9.5 Investment instruments identified for use in the financial year are listed in Appendix E under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices Schedules.

Creditworthiness policy

9.6 The Authority uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies, Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

9.7 The modelling approach combines credit ratings, credit watches, credit outlooks 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 Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

9.8 The selection of counterparties with a very high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Purple 2 years
- Blue 1 year (only applies to (semi) nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

9.9 The Authority will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Authority with few banks on its approved lending list. The Sector creditworthiness service does use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

9.10 All credit ratings will be monitored on a weekly basis. The Authority is immediately 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 Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings, the Authority will be advised of information in movements in Credit Default Swap (CDS) 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 Authority's lending list.

9.11 Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and information gained from scouring the internet, the Financial Times, information on government support for banks and the credit ratings of that government support.

Investment Strategy

9.12 The Authority has in-house managed funds that are mainly cash-flow derived and a core balance available for investment over a 2-3 year period. Accordingly, investments will be made with reference to the core balance and cash flow requirements, and the outlook for short-term interest rates (i.e. rates for investments up to twelve months).

Interest Rate Outlook

9.13 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 thereon. The Bank Rate forecasts for financial year ends (March) are as follows:

- **2010** 0.50%
- **2011** 1.50%
- **2012** 3.50%
- **2013** 4.50%

9.14 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. The Authority will avoid locking into longer term deals while investment rates are down at historically low levels, unless exceptionally attractive rates are available which make longer term deals worthwhile.

9.15 The Medium Term Financial Planning Strategy and 2010/11 Revenue Budget reported elsewhere on this agenda, budget for an investment return of nil.

9.16 For its cash flow generated balances, the Authority will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of Year Investment Report

9.17 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

External Fund Managers

9.18 At the 31 January 2010 £15.0m of the Authority's funds are externally managed on a discretionary basis by Sterling International Brokers.

9.19 Aviva Investors will comply with the Annual Investment Strategy. The agreement between the Authority and Sterling International Brokers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

Policy on the Use of External Service Providers

9.20 The Authority uses Sector Treasury Services as its external treasury management advisers.

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

9.22 It 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 Authority 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.

Scheme of Delegation

9.23 Please see Appendix I.

Role of the Section 151 Officer (Treasurer to the Police Authority)

9.24 Please see Appendix J.

Pension fund cash

9.25 Members of Police Staff are eligible to join the Local Government Pension Scheme (LGPS), the pension fund Administrator is Warwickshire County Council and this Authority, through WCC will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010.

APPENDICES

A. MRP Strategy

B. Interest Rate Forecasts

C. Prudential and Treasury Indicators

D. Economic Background

E. Specified and Non Specified Investments

F. Key Treasury Management Dates

G. Treasury Management Policy Statement

H. Adoption of revised CIPFA Treasury Management Code of Practice 2009

I. Treasury Management Scheme of Delegation

J. The Treasury Management Role of the Section 151 Officer

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.

3. Government Guidance

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

The Authority 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 Authority 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 instalments,
b. annuity method with annual payments gradually increasing 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 DCLG 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 Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess its MRP for 2010/11 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.

The Authority will adopt option 3 the Asset Life Method using equal instalments method of calculating charges, because the major proportion 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%, assuming an average asset life of 25 years. Expenditure reflected within the debt liability at 31st March 2010 will under delegated powers be subject to MRP 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.

APPENDIX B

Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three 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.

1. INDIVIDUAL FORECASTS

Sector interest rate forecast at 23.11.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	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	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	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	4.55%	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	4.60%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

Capital Economics interest rate forecast at 5.11.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
10yr PWLB rate	3.15%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
25yr PWLB rate	3.95%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
50yr PWLB rate	4.15%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%

UBS interest rate forecast (for quarter ends) at 30.10.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%	2.50%	3.00%
10yr PWLB rate	3.90%	4.05%	4.40%	4.75%	4.90%	5.15%	5.40%	5.40%
25yr PWLB rate	4.45%	4.65%	5.00%	5.15%	5.40%	5.65%	5.90%	5.90%
50yr PWLB rate	4.55%	4.75%	5.10%	5.25%	5.50%	5.75%	6.00%	6.00%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury December 2009

This is a summary of forecasts of 23 City and 12 academic analysts for Q4 2009 and 2010. Forecasts from 2010 to 2013 are based on 21 forecasts in the last quarterly forecast at November 2009.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	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%

APPENDIX C

Prudential and Treasury Indicators

PRUDENTIAL INDICATORS (incl. Southern justice Centre)	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Extract from budget and rent setting report	**actual**	**probable outturn**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	**11,106**	**21,154**	**18,649**	**12,333**	**13,769**
Ratio of financing costs to net revenue stream	**0.12%**	**1.42%**	**2.88%**	**3.96%**	**5.45%**
Net borrowing requirement					
brought forward 1 April	-£24,023	-£17,216	£4,519	£22,632	£34,241
Carried forward 31 March	-£17,216	£4,519	£22,632	£34,241	£42.991
in year borrowing requirement	£6,807	£21,735	£18,113	£11,609	£8,750
Capital Financing Requirement as at 31 March	£16,094	£33,764	£40,747	£49,031	£57,058
Annual change in Cap. Financing Requirement	-£802	£17,670	£6,983	£8,284	£8,027
Incremental impact of capital investment decisions – increased cost of borrowing	**134**	**108**	**872**	**1,036**	**1,447**
Increase in council tax (band D) per annum	**£0.68p**	**£0.54p**	**£4.37p**	**£5.18p**	**£7.22p**

TABLE 4: TREASURY MANAGEMENT INDICATORS	2008/09	2009/10	2010/11	2011/12	2012/13
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£16,693	£34,255	£59,176	£61,558	£70,483
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£16,693	£34,255	£59,176	£61,558	£70,483
Operational Boundary for external debt -					
borrowing	£15,693	£33,255	£58,176	£60,558	£69,483
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£15,693	£33,255	£58,176	£60,558	£69,483
Actual external debt	£16,115	£27,521	£47,958	£56,358	£65,108
Upper limit for fixed interest rate exposure					
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net interest re variable rate borrowing / investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 364 days	£0	£0	£0	£0	£0
(per maturity date)					

Maturity structure of fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	%20	%5
12 months and within 24 months	%20	%5
24 months and within 5 years	%60	%10
5 years and within 10 years	%100	%20
10 years and above	%100	%50

Economic Background

Introduction

- 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 central bank rates to 0.10% – 1.00% in order to counter the recession.
- The long awaited start of growth eventually came in quarter 3 2009 in the US and the EU. However, there was disappointment that the UK failed to emerge from recession in quarter 3.
- Inflation has plunged in most major economies and is currently not seen as being a problem for at least the next two years due to the large output gaps and high unemployment putting a lid on wage growth. In many countries there have been widespread pay freezes in 2009 and these are likely to be persistent for some time.
- Deflation could become a threat in some economies if they were to go into a significant double dip recession.
- Asian countries, especially China, are buoying world demand through their own stimulus measures.
- There still needs to be a radical world rebalancing of excess savings rates by cash rich Asian and oil based economies and excess consumption rates in Western economies if the world financial system is not to avoid a potential rerun of this major financial crisis in years to come.
- Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate and to restore the previous health of national finances.

Two growth scenarios

- The current big issue is, ‘how quickly will the major world economies recover?’ There is a sharp division of opinion on this question as set out below. The knock on effects on forecasts for interest rates can be seen in Appendix B. UBS assumes a strong recovery and Capital Economics assumes a weak recovery.

Strong recovery

- This is a normal cyclical recovery which will be strong in the major world economies. The US still has potential to add further fiscal stimulus in 2010 to ensure that strong recovery continues after the current round of stimulus measures end. Growth in the EU is likely to be strong in 2010 and not require such help.

The UK

- GDP growth will almost get back to the long term average of about 2.5% in 2011 but is likely to peak in the first half of the year as inventory rebuilding and stimulus measures fade and fiscal contraction kicks in later in the year.
- The economy will rebalance with strong growth in exports and import substitution helped by strong recovery in the EU and the rest of the world.

- Sterling has depreciated by 25% since the peak in 2007 and is likely to stay weak.
- With consumer spending, only a mediocre recovery is expected due to a steady increase in the savings ratio from +5.6% in 2009 to about 8% in 2011 as consumers pay down debt or build cash balances. Consumer incomes will be held down by wage freezes and increases in taxation.
- House price recovery is expected to persist helped by a low Bank Rate for a prolonged period; the peak to trough fall in house prices is now expected to be no more than 20%. House prices to rise by about 6% in 2010, and 3% in 2011; mortgage approvals will rise back to the level of 75 - 80,000 per month needed to ensure a continuation of a trend of rising house prices.
- CPI inflation to peak at 2.5% in early 2010 after the rise in VAT in January but then to fall to a trough near 1.5% in early 2011 and to stay below 2% for the rest of 2011.
- The current MPC attitude is one of hang on as long as possible before increasing Bank Rate. The aim of this would be to try to ensure that growth gets going at a decent rate and that Bank Rate gets back to 4% to 5% before the next recession and that all assets purchased through quantitative easing have been sold off by then. The first Bank Rate increase is expected in Q3 2009.
- If there is a change of Government in 2010 with a more aggressive fiscal approach, then this could delay the timing of Bank Rate starting to go up.
- The fiscal deficit is 6.4% of GDP, about £90bn, which is expected to fall at £11bn pa over eight years at currently planned rates. This is similar to the peak deficit of 7% in 1990s which was remedied to a surplus of 1.6% in the space of 6 years helped by strong, steady economic growth of 3% pa supported by loose monetary policy that compensated for the fiscal squeeze.
- Gilt yields, especially longer term ones, are currently artificially low due to the Bank of England's quantitative easing operations. £200bn of gilts, commercial bonds and paper are being purchased under this scheme which has inflated prices and depressed yields. Once this campaign ends, yields will inevitably rise but will also rise due to the huge level of issuance of new gilts to finance the fiscal deficit. Long gilt yields are therefore forecast to reach 6% during 2011.
- Gilt yields could rise higher if there was a hung Parliament in 2010 or if the fiscal situation deteriorates further.
- The major risk to this scenario would be a lack of supply of bank credit. However, it is felt that the Bank of England is on alert to ensure that this does not happen and would continue various measures to assist the expansion of credit.

Weak recovery

- The current economic cycle is not a normal business cycle but a balance sheet driven cycle. Over borrowed banks, corporates and consumers are focused on shrinking their levels of borrowing to more viable and affordable levels and this balance sheet adjustment will take several years to be effected. Repayment of debt will therefore act as a major head wind to the required increase in demand in the economy. Consequently there will only be weak economic recovery over the next few years after the initial sharp inventory rebuilding rebound fades. GDP growth is forecast to reach only +1.5% in 2011.
- Fiscal contraction will further dampen economic recovery driven by a strong political agenda to accelerate cuts in expenditure and increases in taxation after the general election in 2010.
- The consumer savings ratio will rise so as to eliminate over borrowing and to insure against people losing their jobs during this downturn. This will depress consumer expenditure, the main driver of the UK economy.

- Growth will also be hampered by a reduced supply of credit from weakened banks compounded by weak demand for credit.
- The eventual reversal of quantitative easing will take cash out of the economy and reduce demand in the economy.
- Unemployment is likely to rise to near to 3m in 2010 and take years to subside due to weak growth. High unemployment will reduce tax income and increase expenditure on benefits and the costs of local authority services.
- Inflation will not be a threat for several years as the current 6% output gap will take until 2014 to be eliminated.
- However, deflation is a major danger for some years: the major falls in manufacturing prices over the last 12 -18 months have still to feed through to the economy and then to impact wage deflation.
- CPI inflation will blip up over 2% in early 2010 but will then be on a strong downward trend to about -1% in 2011.
- There is no need for the MPC to change Bank Rate from 0.5% in 2010 or 2011 and possibly for 5 years as they will need to counter the fiscal contraction which will dampen demand in the economy.
- Long PWLB rates will FALL from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels

Sector view

- Sector recognises that at the current time it is difficult to have confidence as to exactly how strong the UK economic recovery will prove to be. Both the above scenarios are founded on major assumptions and research which could or could not turn out to be correct.
- Sector has adopted a more moderate view between these two scenarios outlined above i.e. a moderate return to growth.
- We do, however, feel that the risks that long term gilt yields and PWLB rates will rise markedly are high.
- There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -
  - degree of speed and severity of fiscal contraction after the general election
  - timing and amounts of the reversal of Quantitative Easing,
  - speed of recovery of banks' profitability and balance sheet imbalances
  - changes in the consumer savings ratio
  - rebalancing of the UK economy towards exporting and substituting imports
- 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 a double dip recession and deleveraging creating 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

APPENDIX E

Specified Investments

All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable.

	*** Minimum 'High' Credit Criteria**	**Use**
DMA Deposit Facility	--	In-house
Term deposits: Local Authorities	--	In-house
Fully Nationalised Banks	Short-term F1+, Support 1	In-house and External Manager
Term deposits: UK Banks and Building Societies	Short-term F1, Long-term A, Individual B, Support 3	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA, Individual B, Support 1	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Individual B, Support 3	External Manager
Money Market Funds	AAA	In-house and External Manager
UK Government Gilts	AAA	External Manager
Gilt Funds and Bond Funds	Long-term A	External Manager
Treasury Bills	--	External Manager

Non-Specified Investments

	*** Minimum Credit Criteria**	**Use**
Term deposits: banks and building societies with maturities in excess of one year with a maximum of three years allowed for in-house deposits	Short-term F1, Long-term A, Individual B, Support 3	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Individual B, Support 3	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Individual B, Support 3	External Manager
UK Government Gilts with maturities in excess of 1 year	AAA	External Manager

Key Treasury Management Dates

- MPC quarterly Inflation Report meetings in February, May, August and November.
- Pre Budget Report which outlines the key fiscal plans, usually held in early December.
- Budget – usually in March / April which gives the detailed fiscal plans for the immediate future

	UK	UK	UK	US	EU	UK	US	ECB
	MPC	MPC Minutes	Inflation Report	FOMC	ECB	Bank Rate	Fed. Rate	Refi Rate
2008								
Jan	-	-		22		5.50%	3.50%	4.00%
Jan	9-10	23		29-30	10	5.50%	3.00%	4.00%
Feb	6-7	20	13	21 (mins)	7	5.25%	3.00%	4.00%
Mar	5-6	19		18	6	5.25%	2.25%	4.00%
Apr	9-10	23		29-30	10	5.00%	2.00%	4.00%
May	7-8	21	14		8	5.00%	2.00%	4.00%
Jun	4-5	18		24-25	5	5.00%	2.00%	4.00%
Jul	9-10	23			3	5.00%	2.00%	4.25%
Aug	6-7	20	13	5	7	5.00%	2.00%	4.25%
Sep	3-4	17		16	4	5.00%	2.00%	4.25%
Oct	8-9	22		28-29	2	4.50%	1.50%	3.75%
Nov	5-6	19	12		6	3.00%	1.00%	3.25%
Dec	3-4	17		16	4	2.00%	0-0.25%	2.50%
2009								
Jan	7-8	21		27-28 (7 mins)	15	1.50%	0-0.25%	2.00%
Feb	4-5	18	11		5	1.00%	0-0.25%	2.00%
Mar	4-5	18		17	5	0.50%	0-0.25%	1.50%
Apr	8-9	22		28-29	2	0.50%	0-0.25%	1.25%
May	6-7	20	13		7	0.50%	0-0.25%	1.00%
Jun	3-4	17		23-24	4	0.50%	0-0.25%	1.00%
Jul	8-9	22			2	0.50%	0-0.25%	1.00%
Aug	5-6	19	12	11	6	0.50%	0-0.25%	1.00%
Sep	9-10	23		22	3	0.50%	0-0.25%	1.00%
Oct	7-8	21			8	0.50%	0-0.25%	1.00%
Nov	4-5	18	11	3-4	5	0.50%	0-0.25%	1.00%
Dec	9-10	23		15	3	0.50%	0-0.25%	1.00%
2010								
Jan	6-7	20		27	14			
Feb	3-4	17	10		4			
Mar	3-4	17		16	4			
Apr	7-8	21		28	8			
May	5-6	19	12		6			
Jun	9-10	23		23	10			
Jul	7-8	21			8			
Aug	4-5	18	11	10	5			
Sep	8-9	22		21	2			
Oct	6-7	20			7			
Nov	3-4	17	10	3	4			
Dec	8-9	22		14	2			

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.”

Adoption of the Revised CIPFA Code of Practice on Treasury Management 2009

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 Authority, 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, incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the Authority.

The revised Code has also set out various requirements which have been summarised in paragraph 1 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. The Authority 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. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the ????????, and for the execution and administration of treasury management decisions to the Police Authority Treasurer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority nominates the Police Authority to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Scheme of Delegation

Needs a thorough check for WPA

(i) Police Authority

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Police Authority

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Director of Finance

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Borrowing/Funding

  Raising debt finance from the most appropriate of these sources:

  - Government's Public Works Loans Board
  - Lenders Option Borrowers Option (LOBOs)
  - European Investment Bank
  - Overdraft
  - Banks and building societies
  - Local Authorities
  - Lease finance providers
  - Internal borrowing

- Repayment of debt
  - Managing the cost of debt
  - Delegate authority to treasury management staff to undertake borrowing activities
  - Delegated power to include vehicles in the 2010/11 capital programme if borrowing is the preferred financing option, following evaluation of all funding options. Evaluation with regard to the options concerning PWLB/LOBO borrowing or operating leases will be based on the advice of the Authority's leasing consultant.

- Delegated power to approve budget adjustments between Directorates and the capital financing budget in ‘Other Services’ to cover borrowing costs.

- CIPFA Prudential Code for Capital Finance in Local Authorities
    - Ensuring that this requirement is not breached in future years, taking into account current commitments, existing plans, and the proposals in the budget report.

- Investing
    - Setting more restrictive investment criteria in response to changing circumstances.
    - Arranging investments using these instruments:

        - Fixed term deposits with banks and building societies
        - Money Market Funds
        - Local Authorities
        - Government’s Debt Management Agency Deposits
        - Bonds & gilts *
        - Certificates of deposit *
        - Treasury Bills*

        *Used by the external cash manager

    - Compiling and updating the Lending List, utilising the criteria for counterparties, in consultation with the treasury management consultants. The criteria are fully detailed in the Treasury Management Practice Document, Risk Management.
    - Consideration and use of new financial instruments and treasury management techniques
    - Managing surplus funds and revenue from investments
    - Appointment and performance management of external cash managers
    - Delegate authority to invest to designated treasury management staff.

- Use of the Provision for Credit Liabilities (amounts set aside as a provision to meet credit liabilities)
    - Use of the PCL balance as the Strategic Director, Resources sees as appropriate

- Loan rescheduling
    - Any rescheduling will be done in consultation with the treasury management consultants

- Leasing
    - Take out finance leases (recorded on the balance sheet)
    - Take out operating leases (revenue expenditure)
    - Leasing activities to be undertaken in consultation with the leasing advisor.

- Policy Documentation
    - Formulation and review of the Treasury Management Policy Statement
    - Formulation and review of the Treasury Management Practice Documents as follows:

- risk management (includes credit criteria for the Authority's lending list)
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

- Strategy Implementation
  - Implementing the Strategy ensuring no breaches of regulations
  - Reporting to Cabinet any material divergence from the Strategy
  - Making requests to Council to approve amendments to the Strategy as required
  - Ensuring that treasury management activities are carried out in accordance with CIPFA Codes of Practice.

APPENDIX J

The Treasury Management Role of the Section 151 Officer: Police Authority Treasurer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.