

Report of	Meeting	Date
Report of Director of Finance	Council	27 February 2007

STATUTORY REPORT ON THE BUDGET AND ANNUAL TREASURY MANAGEMENT STRATEGY

PURPOSE OF REPORT

- To provide advice required under Section 25 of the Local Government Act 2003 and to seek approval of the Annual Treasury Management Strategy.

CORPORATE PRIORITIES

- The budget is concerned with enabling corporate aims and objectives to be delivered through appropriate allocation of the Councils budgetary resources.

RISK ISSUES

- The issues raised and recommendations made in this report involve the considerations in the following category.

Strategy		Information	
Reputation		Regulatory/Legal	✓
Financial	✓	Operational	
People		Other	

- The report is almost entirely concerned with means of addressing the various financial issues facing the Council, although regulatory legal risk is faced if due process in terms of compliance with the relevant legislation is not achieved.

BACKGROUND

- Under the requirements of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to advise members when setting the budget as to the robustness of the budget and the adequacy of reserves. Treasury management issues are also now included as a specific requirement following the introduction of the Prudential Code for Capital Finance in Local Authorities. This report aims to fulfil all these various requirements.

ADEQUACY OF RESERVES

- The Council for some time has established a budget based upon not using working balances to fund recurrent expenditure. Clearly this is good practice which delivers a prudent and sustainable budget. I would propose that, given the risk profile in terms of the budget that for 2007/08 balances are maintained in the range £0.75-£1.25m, but that over the medium term may be increased, dependant upon the outcome of Job Evaluation.

The level balances is a matter of judgement, however, there still remains the potential for further balances to be required given the risk profile, more details are set out in the paragraphs below.

7. Set out in the table below is a summary of the anticipated working balances and reserves the Council will have in hand over the medium term.

	Balance at 1/4/07	Balance at 1/4/08	Balance at 1/4/09
	£000	£000	£000
Earmarked Reserves			
Revenue Slippage	52	37	27
IT Development/e-Workforce	44	0	0
Building Control	50	50	50
Matched Funding	16	0	0
Innovation Fund	117	97	57
Local Development Framework	143	103	63
Performance Reward Grant	72	0	0
Transferred HRA Balance	0	0	900
Other	46	44	43

8. The table shows that after the stock transfer goes ahead the Council's working balances will increase from 2008. However, this position needs to be balanced against the increasing financial risks facing the Council at the moment in relation to concessionary travel and job evaluation.
9. The stock transfer process may also provide further additional one off monies in relation to stock and inventory, but these are not yet agreed. I will report on the eventual outcome post the stock transfer. Also included in the analysis is the PSA money now expected, which is significantly less than originally anticipated. In addition there is an assumption regarding LAGBI grant which is sufficient to cover commitments, as the details of actual grant are not yet available.

THE ROBUSTNESS OF THE ESTIMATE

10. There still remain a number of areas of significant risk to the Council and it's ability to deliver its budget. The majority of these areas are not unique to Chorley and are recurrent issues in many cases, given the nature of Local Authority business.
11. Given the proposed changes in the establishment, there are likely to be a number of redundancies (some voluntary and some possibly compulsory) within the latter part of this year or the early part of 2007/08. We have not yet applied for detailed calculations as to likely redundancy costs and ongoing pension strain on the general fund as these will not be known until later in the process. The CLG has also limited the directions required to capitalise such costs, so the situation needs to be carefully managed.
12. Accordingly there is a risk of additional revenue costs relating to redundancies that have not yet been included in the budget, although a sum of £500k is set aside in the Council's Capital programme with the associated revenue costs built into the 2007/08 forecast.
13. As soon as the plans from individual directors are agreed we will make the necessary applications, and I will update members accordingly on the impact on the revenue budget.

14. A current assumption included within the budget is that £103k of salary costs for the Development & Regeneration team working on capital schemes can be capitalised during the year. At present there are no approved capital schemes that utilise staff time from this directorate and accordingly, part or all of the £103k may impact on the general fund. This is considered to be a significant risk and mitigating plans need to be put in place, but will depend on the outcome of discussion on the scale and content of the Capital Programme.
15. Fee income from Planning Application Fees, Building Control Planning Fees and Building Control Inspection Fees total £664k in 2007/08. In recent years these budgets have proven quite volatile and have been difficult for the service directorate to predict in terms of programmed receipts.
16. Given that there is now limited opportunity for further, currently unplanned, development on Buckshaw Village or any other major site within the borough these budgets could cause us significant problems if not monitored closely. Additionally the recent interest rate rise in the Bank of England Base Rate could also slow down the amount of small-scale private development that generates approximately £421k or 63% of the total budget.
17. In firming up the underlying assumptions around the LSVT to CCH, £260k of income relating to SLA's has been included in this draft of the budget. These SLA's cover items from leasing office accommodation at Gillibrand Street to grounds maintenance and other front line service costs. At present negotiations are taking place with CCH around how these services will be delivered, but to date there has not been any formal agreement has yet been reached, although discussion is well advanced.
18. Additional funding from reserves has also been provided in the form of £66k for PCSO's and £30k for pump priming of the LSP. This is expected to be financed from the receipt of PSA1 grant due in the final quarter of 2006/07. Information received now shows the grant is less than expected, but enough to cover commitments.
19. The proposed future developments within the town centre known as Market Walk Phase 2 has been the subject of a separate report submitted by the Chief Executive to the Executive Cabinet and Council. Within the report reference is made to the potential impact on revenue resources, which will vary depending on how members decide to allocate the capital receipt for the sale of land, if the development proposals are approved.
20. The report indicates that the impact, primarily resulting from loss of car park income, is expected to be £94k in 2007/08 depending on how the capital receipt is to be utilised. As the details of the arrangement are not yet finalised this figure may change but I expect this to be at the margins. Home Office funding for community safety initiatives also remains a risk within our budgets. At present I have included £135k as the amount anticipated to be received in grants in order to directly fund community safety projects. A further assumption is that the projects themselves will total £135k thereby exactly matching the grant. In the event that the amount of grant received is lower than anticipated, the level of activity may need to be reduced.
21. At present there is also an assumption that £144k of Planning Delivery Grant (PDG) will be received in 2007/08. This is approximately two thirds of the value received in 2006/07 and is allocated to cover the costs of employment of a number of specific posts within Development & Regeneration and ICT Services. If the value of the grant is lower than that assumed in the current budget the authority will either need to identify savings, or consider the level of resourcing currently allocated to this work.
22. Concessionary Travel continues to be an area of risk for the Council's revenue budget. The two largest impacts that are anticipated are the introduction of smart card technology sometime in 2007 and the introduction of a national free travel scheme from 1st April 2008.

23. The introduction of Smart technology is a risk as it is highly likely that the costs recharged to the authority will increase when we are charged for journeys that concessionaires living in the borough make, rather than being recharged on the basis of a historical survey. At this stage it is not possible to quantify the size, given that to date the Smart Card technology has not been delivered, nor do I have any confidence, given the performance of the transport companies that the technology will be delivered by April 2007.
24. The introduction of a national free travel scheme also has the potential to impact on the revenue budget in later years. At this stage however, it is not possible to clearly state the level of the impact, as the precise details of the scheme are not known. The biggest risk to the authority would be from a scheme that is administered and funded centrally and therefore grant relating to travel would not be paid to Chorley as the Travel Concession Authority, but to the body that administers the scheme.

Job Evaluation remains a key variable that has the potential to impact significantly on the financial health of the Council. Whilst a worst case scenario is built into the forecasts the impact is plain for all to see.

FUTURE YEARS BUDGETS

25. Appendix 2 of the main budget report shows the future year forecast and in summary shows that the Council will be able to deliver a balanced budget for 2007/08, but that in future years there is more work to be done.
26. The figures for 2008/09 are premised on an inflationary increase in Council Tax in both years, but show that even with an increase the size of the budget gap is significant. It will again be a policy choice for Members regarding the future levels of Council Tax. I shall be producing updated figures in the first quarter of the next financial year and producing the Council's financial strategy for dealing with issues faced by the Council. I would normally have the strategy produced within the budget cycle, but given the potential impact of both job evaluation and the stock transfer, I feel it is appropriate to wait until more robust information is available.

SAVINGS TARGETS AND BUDGET ASSUMPTIONS

27. Inevitably the 2007/08 budget as in previous years contains a number of assumptions. However at this stage in the budget cycle plans are well advanced and there are very few speculative targets are currently factored into the budget. However key areas which remain as assumptions are:

Table 3 – Efficiency Savings

EFFICIENCY SAVINGS £'000

Efficiency savings	(60,000)
TUPEII and SLA negotiation with Chorley	
Community Housing	(257,000)
Vacancy Savings	(228,000)
Reduction in Indoor Leisure costs to Management Fee	(25,000)
TOTAL	(570,000)

28. The table shows the total cost reductions included in the 2007/08 base budget that need to be delivered if the budget is to remain in balance. In relation to the particular items I would make the following observations.

EFFICIENCY SAVINGS

29. An annual target has previously been set by the Council. Again this target is usually met so I consider the risk to be minimal, and there are a number of schemes in the pipeline which I expect will contribute significantly to this target.

VACANCY SAVINGS

30. Traditionally the Council has achieved this target and a reduction to the base level of savings expected has been made in 2007/08 to reflect the fact that the Councils establishment has reduced, thus the opportunity for saving is also reduced.

INCOME

31. In terms of the income the Council generates from fees and charges, the bulk of the increases come from the following income streams:

Licensing Fees	£120k
Local Land Searches	£190k
Parking Fees	£780k
Market Toll	£300k
Planning and Building Control Fees	£664k
Investment Portfolio	£463k
TOTAL	£2.517m

32. In terms of the assumptions made, adjustments have been made to account for rent reviews, but the bulk of the income streams are subject to market competition and are demand led and a policy decision regarding the scale of fees has already been determined in relation to parking fees. Any significant increase in Land Search fees or Building Control fees could adversely affect income levels, where there is local competition for these services, so currently there are no changes proposed in this initial draft.

CONCLUSION ON THE ADEQUACY OF RESERVES AND THE ROBUSTNESS OF THE BUDGET

33. My overall conclusion therefore is that, whilst there are still some risks contained in the budget they are certainly no greater than those faced in previous years other than for Job Evaluation and Concessionary Travel. Whilst the impact of stock transfer has been mitigated to a great extent, the job evaluation process is still ongoing and will not be resolved for some time.
34. There are a number of dependencies built into the forecast, not least of which is the Job Evaluation outcome which will determine the final shape of the 2007/08 budget and the overall financial strategy of the Council. The Council has set an objective of making the process affordable, but only once negotiations are complete with the outcome be known.
35. Working balances will be mid range as compared to the target range set out in the Medium Term Financial Strategy and I propose that no change should be made to those limits until further information is available and I am able to update the Councils financial strategy.
36. With regard to the robustness of the budget for 2007/08 once again each service has had a line by line review completed of their budget and whilst there are still some issues to resolve clearly savings have been identified to bring the budget into balance. In almost all cases work is in hand to complete the work required and progress is well advanced. For this reason I believe the budget to be soundly based and achievable.

TREASURY MANAGEMENT STRATEGY

37. Appended to this report is the Annual Treasury Management Strategy which guides the Council in terms of its approach to borrowing and cash investments. For 2007/08 the Council's position in terms of in particular cash to invest will change significantly where we will become cash rich as a result of the Capital Financing position regarding stock transfer.
38. Consequently, getting the investment strategy right is important if we are to achieve the targets set out and now include the Council's base budget.
39. Equally, borrowing at the right time to fund the Council's Investment Programme is essential.

Whilst the Strategy is quite technical the message is relatively simple:

- Invest cash now as rate is likely to fall.
- Borrow at fixed rates and long.
- The Council's borrowing is forecast to be well within the boundary set by the prudential code and is affordable.

COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

40. There are no direct Human Resource implications arising from this report.

CONCLUSION

41. The report set out the Council's overall financial position in relation to reserves and the delivery of a robust budget.
42. I have concluded that the budget is deliverable and does not represent a significant risk to the overall level of working balances the Council now has.
43. Likely future cost pressures indicate that it is prudent to maintain a significant level of working balances to protect the Council against that financial risk. Should that risk profile change in the light of more up to date information then this may require the Council to reassess its position.

RECOMMENDATION(S)

44. The Council are recommended to:
 - (a) Note of the Chief Finance Officer under S25 of the Local Government Act 2003 set out in this report and have regard to it when considering the budget for 2007/08.
 - (b) Approve the Treasury Management Strategy for 2007/08.

GARY HALL
DIRECTOR OF FINANCE

There are no background papers to this report.

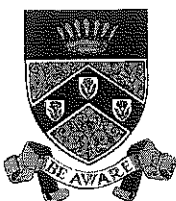
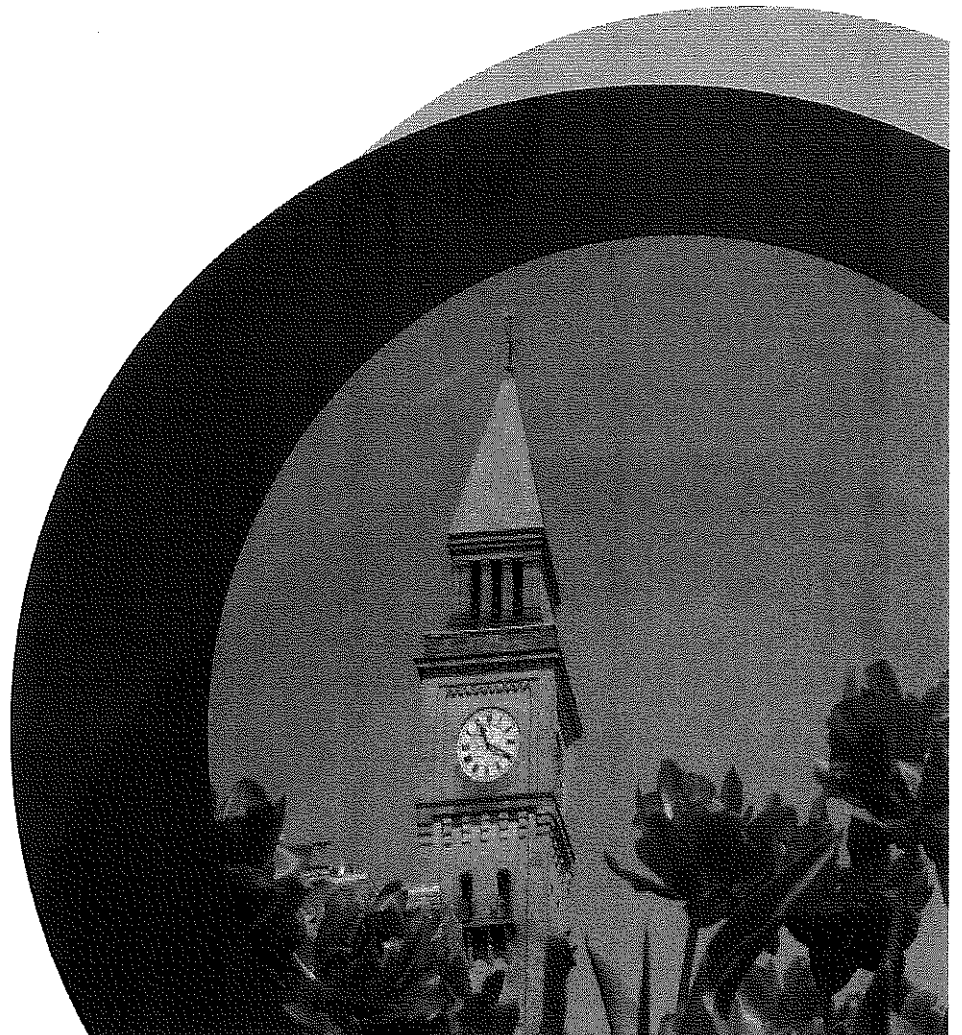
Report Author	Ext	Date	Doc ID
***	***	***	ADMINREP/REPORT

Chorley Council

Treasury Management Strategy Statement

and

Annual Investment Strategy 2007/08



TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2007/08

1. INTRODUCTION

The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council 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); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2007/08 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, Sector Treasury, the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- the implications of the LSVT.

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council 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, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- (a) increases in interest charges caused by increased 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 Council for the foreseeable future.

2. TREASURY LIMITS FOR 2007/08 TO 2009/10

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council 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 section 3 of the Local Government Act 2003.

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

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3. PRUDENTIAL INDICATORS FOR 2007/08 – 2009/10

The following prudential indicators (in table 2 below) are relevant for the purposes of setting an integrated treasury management strategy.

PRUDENTIAL INDICATOR	2005/06	2006/07	2007/08	2008/09	2009/10
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	£'000	£'000	£'000	£'000	£'000
	actual	probable outturn	estimate	estimate	estimate
Capital Expenditure					
Non - HRA	7,910	11,793	3,479	1,336	520
HRA (applies only to housing authorities)	2,245	1,974	0	0	0
TOTAL	10,155	13,767	3,479	1,336	520
Ratio of financing costs to net revenue stream					
Non - HRA	1.7%	1.9%	0.9%	1.5%	2.1%
Net borrowing requirement					
brought forward 1 April	0	269	1,055	2,707	3,005
carried forward 31 March	269	1,055	2,707	3,005	3,525
in year borrowing requirement	269	786	1,652	298	520
Capital Financing Requirement as at 31 March					
Non - HRA	11,587	11,663	5,873	7,494	7,670
HRA (applies only to housing authorities)	2,419	2,499	0	0	0
TOTAL	14,006	14,162	5,873	7,494	7,670
Annual change in Cap. Financing Requirement					
Non - HRA	0	76	(5,790)	1,621	176
HRA (applies only to housing authorities)	0	80	(2,499)	0	0
TOTAL	0	156	(8,289)	1,621	176
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D) per annum *	0.00	0.00	2.72	6.86	7.35
* or increase in precept for police, fire or other precepting authorities					

PRUDENTIAL INDICATOR	2005/06	2006/07	2007/08	2008/09	2009/10
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
	actual	probable outturn	estimate	estimate	estimate
Authorised Limit for external debt -					
borrowing	1,500	2,100	3,980	3,980	4,980
other long term liabilities	6,500	900	20	20	20
TOTAL	8,000	3,000	4,000	4,000	5,000
Operational Boundary for external debt -					
borrowing	500	1,100	2,980	2,980	3,980
other long term liabilities	6,800	900	20	20	20
TOTAL	7,000	2,000	3,000	3,000	4,000
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	30%	30%	30%	30%	30%
Upper limit for total principal sums invested for over 364 days (per maturity date)	10m	10m	10m	10m	10m

Maturity structure of fixed rate borrowing during 2007/08	upper limit	lower limit
	under 12 months	10%
12 months and within 24 months	10%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

4. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 31/01/07 comprised:

		Principal		Ave. rate
		£m		%
Fixed rate funding	PWLB	0		
	Market	<u>0</u>	0	0
Variable rate funding	PWLB	0		
	Market	<u>0</u>	0	0
Other long term liabilities			<u>0</u>	
TOTAL DEBT			<u><u>0</u></u>	0
TOTAL INVESTMENTS			£925,004	@ 5.087871

5. BORROWING REQUIREMENT

	2005/06	2006/07	2007/08	2008/09	2009/10
	£'000 actual	£'000 probable	£'000 estimate	£'000 estimate	£'000 estimate
New borrowing	0	1,055	1,652	298	520
Alternative finance arrangements	0	0	0	0	0
Replacement borrowing	0	0	0	0	0
TOTAL	0	1,055	1,652	298	520

6. PROSPECTS FOR INTEREST RATES

The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix A 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 interest rate forecast – 29 January 2007

	Q1/E1 2007	Q2/E2 2007	Q3/E3 2007	Q4/E4 2007	Q1/E1 2008	Q2/E2 2008	Q3/E3 2008	Q4/E4 2008	Q1/E1 2009	Q2/E2 2009	Q3/E3 2009	Q4/E4 2009	Q1/E1 2010	Q2/E2 2010	Q3/E3 2010
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Sector's current interest rate view is that Bank Rate will:

- **peak at 5.50% in quarter 1 2007**
- **fall to 5.25% in Q3 2007 and then to 5.00% in Q4 2007**
- **fall to 4.75% in Q3 2008 and then to 4.50% in Q1 2009 before rising back to 4.75% in Q1 2010.**

7. BORROWING STRATEGY

The Sector forecast is as follows:

- **The 50 year PWLB rate is expected to remain flat at 4.25%. As the Sector forecast is in 25bp segments there is obviously scope for the rate to move around the central forecast by +/- 25bp without affecting this overall forecast.**
- **The 25-30 year PWLB rate is expected to stay at 4.50% for the foreseeable future.**
- **The 10 year PWLB rate will fall from 5.00% to 4.75% in Q3 2007 and then fall again to 4.50% in Q1 2008 and remain at that rate for the foreseeable future.**
- **5 year PWLB rate will fall from 5.50% to 5.25% in Q2 2007 and continue falling until reaching 4.5% in Q1 2008 when it will remain at that rate for the foreseeable future.**

This forecast indicates, therefore, that the borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term

borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.

When the 50 year PWLB rate falls back to the central forecast rate of 4.25%, borrowing should be made in this area of the market at any time in the financial year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.25%.

Against this background caution will be adopted with the 2007/08 treasury operations. The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, 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 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.*
- *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.*

8. DEBT RESCHEDULING

If the Council chooses to borrow, opportunities to restructure long term debt will be monitored on an ongoing basis.

The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in paragraph 7 above; and
- In order to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

9. ANNUAL INVESTMENT STRATEGY

9.1 Investment Policy

The Council will have regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

- (a) the security of capital and

(b) the liquidity of its investments.

The Council 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 this Council will not engage in such activity.

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 Council's Treasury Management Practices – Schedules.

Specified Investments

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	* Short-term F1, Long-term A, Individual C, Support 2	In-house and fund managers

Fixed term deposits with variable rate and variable maturities: -		
1. Callable deposits	* Short-term __, Long-term __, Individual __, Support	In-house and fund managers
2. Range trade	* Short-term __, Long-term __, Individual __, Support	In-house and fund managers
3. Snowballs	* Short-term __, Long-term __, Individual __, Support	In-house and fund managers
Certificates of deposits issued by banks and building societies	* Short-term F1, Long-term A, Individual C, Support 2	In-house buy and hold and fund managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In house on a 'buy and hold basis' and Fund Managers
Treasury Bills	--	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
-		
1. Money Market Funds	* Short-term __, Long-term __ volatility rating	In-house and fund managers
2. Enhanced cash funds	* Short-term __, Long-term __ volatility rating	In-house and fund managers
3. Short term funds	* Short-term __, Long-term __ volatility rating	In-house and fund managers
4. Bond Funds	* long-term AA- (to 2 years) *** long-term AA- (2 to 5 years) *** Volatility Rating?	In-house and Fund Managers
5. Gilt Funds	* long-term AA- (to 2 years) *** long-term AA- (2 to 5 years) *** Volatility Rating?	In-house and Fund Managers

* LA to specify

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

Non-Specified Investments

1. Maturities of ANY period.

	* Minimum Credit Criteria	Use	*** Max % of total investments	Max. maturity period
<i>(if using)</i> Term deposits with unrated counterparties : any maturity	* <i>state alternative to credit criteria</i>	In-house	0%	0 years
Corporate Bonds : <i>the use of these investments would constitute capital expenditure</i>	* Long-term AA- (to 2 years), * Long-term AA (2 to 5 years),	In house on a 'buy and hold basis' and Fund Managers	25%	10 years
Floating Rate Notes : <i>the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i>	* Long-term AA- (to 2 years), * Long-term AA (2 to 5 years),	Fund managers	25%	5 years

2. Maturities in excess of 1 year

Term deposits – local authorities	--	In-house	25%	5 years
Term deposits – banks and building societies	* Short-term __, Long-term __, Individual __, Support __	In-house	25%	5 years
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	* Short-term __, Long-term __, Individual __, Support __	In-house and fund managers	25%	5 years
2. Range trade	* Short-term __, Long-term __, Individual __, Support __	In-house and fund managers		
3. Snowballs	* Short-term __, Long-term __, Individual __, Support __	In-house and fund managers		
Certificates of deposits issued by banks and building societies	* Short-term __, Long-term __, Individual __, Support __	In house on a 'buy and hold basis' and Fund managers	25%	5 years
UK Government Gilts	AAA	In house on a 'buy and hold basis' and Fund Managers	100%	10 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	25%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	25%	10 years
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In house on a 'buy and hold basis' and Fund Managers	100%	10 years
Property fund: <i>the use of these investments would constitute capital expenditure</i>	--	Fund manager		
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
1. Bond Funds	* long-term __ volatility rating	In-house and Fund Managers		
2. Gilt Funds	* long-term __ volatility rating	In-house and Fund Managers		

* LA to specify

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (*or other rating agency if applicable*) rating will be used. All credit ratings will be monitored monthly. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

9.2 Investment Strategy

The Council's funds are managed on a non-discretionary basis by Sector Treasury Services who are contractually required to comply with this strategy.

The Council will discuss with its adviser instruments that they consider may be prudently used to meet the Council's investment objectives. The Council will evaluate the risk-reward characteristics of asset categories to decide whether to use instruments that complied with the Guidance.

The management agreement between the Council and the adviser formally document the terms for management, including guidelines and instruments they can use within pre-determined limits.

In-house funds:

The Council's funds are currently entirely cash-flow. However, the Council is undertaking an LSVT during March 2007 and, accordingly, it is anticipated that core cash limits of approximately £8.5m will emerge which can be invested in the longer term. In the event of this changing, investments will accordingly 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 12 months).

Interest rate outlook:

Sector is forecasting Bank Rate to peak at 5.5% in Q1 2007 before falling to 5.25% in Q3 2007, to 5.00% in Q4 2007, to 4.75% in Q3 2008 and then to trough at 4.50% in Q1 2009, remaining at that level before rising again to 4.75% in Q1 2010.

Councils should, therefore, seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. For 2007/8 clients should budget for an investment return of 5.00%

The Council has identified the following trigger points for investments as follows:

- << 5.60% >> for 1-year lending
- << 5.60% >> for 2 year lending
- << 5.60% >> for 3 year lending
- << 5.50% >> for 4 year lending
- << 5.50% >> for 5 year lending

The 'trigger points' will be kept under review and discussed with Sector so that investments can be made at the appropriate time.

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

End of year investment report

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

10. **LARGE SCALE VOLUNTARY TRANSFER (LSVT)**

A proposed future LSVT, which is expected to be undertaken in March 2007, raises a number of complex and critical decisions which have been considered and planned for in advance of the physical cash transaction taking place. There is an overhanging debt payment from the Department of Communities and Local Government (formerly ODPM) to repay PWLB debt. In order to facilitate this transaction the Council will need to borrow long term funds from the PWLB and for this loan to be repaid at the time of the LSVT. As a result, the positioning/structure of borrowing will need to be considered from the outset, along with a strategy which takes account of the risk that the transfer may not proceed. This treasury management strategy therefore facilitates the necessary potential degree of flexibility required to manage the process.

APPENDIX A

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 – 29.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Capital Economics interest rate forecast – 6.2.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.50%	5.50%	5.25%	5.00%	4.50%	4.50%	4.50%
5yr PWLB rate	5.55%	5.15%	4.85%	4.65%	4.45%	4.55%	4.65%	4.75%
10yr PWLB rate	5.15%	4.85%	4.45%	4.45%	4.55%	4.65%	4.75%	4.85%
25yr PWLB rate	4.45%	4.35%	4.25%	4.25%	4.25%	4.35%	4.45%	4.55%
30yr PWLB rate	4.25%	4.15%	3.95%	4.05%	4.05%	4.15%	4.25%	4.35%
50yr PWLB rate	4.05%	3.95%	3.95%	4.05%	4.05%	4.15%	4.15%	4.25%

UBS interest rate forecast (for quarter ends) – 15.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
10yr PWLB rate	4.85%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.90%
25yr PWLB rate	4.25%	4.25%	4.25%	4.30%	4.35%	4.40%	4.45%	4.55%
50yr PWLB rate	4.15%	4.15%	4.25%	4.35%	4.40%	4.45%	4.55%	4.65%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – January 2007 summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts)

	bank rate	Quarter ended		annual average bank rate		
	actual	Q4 2006	Q4 2007	ave. 2008	ave. 2009	ave. 2010
Indep. forecasters BoE Bank Rate	5.25%	4.98%	4.97%	4.86%	4.88%	4.85%
Highest bank rate	5.25%	5.00%	5.80%	5.90%	5.60%	6.10%
Lowest bank rate	5.25%	4.75%	4.50%	3.75%	4.00%	4.00%