

ANNUAL INVESTMENT STRATEGY FOR THE 2010/11 FINANCIAL YEAR

Introduction

1. This strategy is made in accordance with the Guidance on Local Government Investments issued by the government on 12 March 2004 and the proposed update to this Guidance issued for consultation in November 2009. It will be necessary to review this Strategy if there are significant changes to the proposed Guidance.
2. The Council approved the Annual Investment Strategy for 2010/11 on 9 March 2010. This strategy is consistent with the Council's overall treasury management strategy for 2010/11.
3. This strategy applies to both in-house and externally managed funds. External managers must confirm the acceptability of a counterparty before an investment is made.

General Provisions

4. All investments must be made in sterling

Credit risk assessment

5. Credit ratings are an important, but not the only, means of assessing creditworthiness. Full regard will be given to other available information on the credit quality of counterparties. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the criteria set out in this Strategy. The Director of Finance has access to treasury consultants, and has a copy of the Financial Times delivered daily, to help in providing this sort of information in an appropriate way. Therefore, in addition to credit ratings, the Director of Finance will consider the following factors when making investments and reviewing the credit quality of investments currently held:
 - a. **Quality financial press** – watch for any market rumours
 - b. **Credit default swaps** - CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay the agreed amount to the buyer of the credit default swap. Although absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
 - c. **Share price**– changes in share prices are an indicator of market confidence
 - d. **Annual reports**
 - e. **Statements to the market**
 - f. **Information on government support for banks**– if a government is likely to step in to support a bank then this reduces the risk of default
 - g. **Credit ratings of government support**– the weight you place on potential support from a government that does not itself have a high credit rating
 - h. **The rates being paid** - If they're out of line with the market, there's a reason and could indicate that the investment is likely to carry a high risk
 - i. **What other banks are saying** - Rumours spread quickly in markets
 - j. **Information provided by management advisors**– this may include some of information detailed above.

- k. **Market price (and movement in the market price) of existing debt securities issued by counterparties** – if other lenders are getting worried about a particular counterparty they will be selling the counterparty's debt securities and, by doing so, pushing down the price of those securities in the market.

Credit ratings used

6. Our treasury management consultants (currently Sterling Consultancy Services) provide us with routine lists of credit ratings at least every month, and any urgent changes on a daily basis. The lists of investment counterparties are changed immediately new credit rating are received. The tables below compare the long-term and short-term ratings used by the various credit rating agencies to enable fund managers to use ratings from different rating agencies:

Table A: Comparison of long-term credit ratings		
Moody's	S&P	Fitch
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

Comparison of Short-Term Ratings		
Moody's	S&P	Fitch
Investment grade		
Prime-1 "P1"	A-1+	F1+
Prime-1 "P1"	A-1	F1
Prime-2 "P2"	A-2	F2
Prime-3 "P3"	A-3	F3
Speculative grade		
Not Prime	B	B
	C	C
	D	D

7. All decisions on placing new investments are to be made on the basis of the lowest ratings issued by all three main agencies, Fitch, Moody's and Standard and Poors.

8. The individual and support ratings supplied by Fitch are to be used in addition to the long and short-term ratings. These ratings measure:
- Individual: A measure of the intrinsic safety and soundness, assesses the likelihood of a need for external support.
 - Support: A measure of the likelihood of owner or government support. Fitch uses a series of ratings from "1" (highest) to "4" to measure this likelihood.
9. Institutions who are under 'negative watch' or 'review for possible downgrade' notices (as distinct from negative outlook) are assessed on the basis of one category below their current credit rating and the term of any such new investment can be for no longer than 3 months. Definitions of these terms are set out at the end of this statement.

Sector limits

10. As far as reasonably possible, no more than 75% of total investments made are to be lent to building societies at any one time. Where possible, some investments outside of the banking sector will form part of the portfolio held. These sector limits are not to be regarded as absolute limits and it is recognised that, from time to time, short-term cash requirements may mean that the limit is temporarily exceeded.

Counter party maximum limit

11. Investments made must avoid an over concentration with one or two counter parties. A set of maximum counterparty limits is therefore appropriate. The limit of investment with any one authorised institution is to be £2.0m (lower limits apply to certain building societies).
12. The manager of externally managed funds is required to confirm that a counterparty name is acceptable before making an investment.
13. The limit for money market funds is £3.0m. This is higher than the limit (of £2.0m) for investment with any one authorised institution because of the protection offered by the diversity and high credit rating of such funds.

Investments in any parent and its wholly owned subsidiaries

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

Counterparty list

15. The Director of Finance will maintain a counterparty list in compliance with these criteria.

Policy for specified investments and credit criteria used

16. All specified investments must be in sterling and have a maturity of less than a year. Such investments with the UK Government and local authorities count as specified investments, as will those with bodies or in investment schemes with high credit quality. Non-specified investments are those that do not meet these criteria.
17. Table B sets out the counterparties that can be used and the limits that apply:

Table B: Specified investments - Limits					
	Minimum credit ratings (Fitch)			Maximum limits	
	Short-term	Individual	Support	Term up to	Sum to
UK Banks (see paragraph 12)	F1	B/C	3	364 days	£2m
Subsidiaries of UK Banks (if the parent bank satisfies the credit rating criteria)	F1	B/C	3	3 months	£2m
UK Banks (government-owned or likely to receive government support)	F1+	Any	1	2 months	£1m
Local, Police, Fire, Civil Defence and Transport Authorities	N/A	N/A	N/A	364 days	£2m
Government bonds (gilts) and treasury bills	N/A	N/A	N/A	364 days	No limit
Debt Management Agency Deposit Facility (DMADF)	N/A	N/A	N/A	364 days	No limit
Money Market Funds: In highly liquid funds (with immediate access or with periods of notice less than 8 days)	AAA rated			On call or at short notice	£3m
Multinational Development Banks	AAA rated			364 days	£1m
Foreign banks domiciled in one country that holds a AAA or AA+ sovereign credit rating	F1+	B	2	On call only	£1m
Building Societies (all must have been issued a certificate of eligibility under the UK Government's 2008 Credit Guarantee Scheme)					
UK Building Societies with assets exceeding £1,000m	F1	B/C	4	364 days	£2m
	F2	C	4	6 months	£1m
UK Building Societies with assets between £500m and £1,000m	F1	B/C	4	364 days	£1m
	F3	C	4	3 months and 7 days	£1m
UK Building Societies with assets exceeding £750m without a credit rating or with credit ratings that would not satisfy our credit criteria set out above.	N/A	N/A	N/A	3 months and 7 days	£1m
UK Building Societies, without a credit rating, with assets between £500m and £750m	N/A	N/A	N/A	3 months and 7 days	£0.5m

18. Investment in any bank and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that bank or its subsidiaries.
19. If credit ratings are downgraded below criteria, the counterparty will be suspended from counterparty list and no further investments will be made with it.

Money market funds

20. Accounts may be opened in money market funds that have a credit rating of AAA may be made subject to the advice of our treasury management consultants as to confirmation of the credit worthiness and liquidity of the fund, the performance of the fund, and other matters as appropriate. The maximum investment in any one fund is £3m. Our practice is to have more than one money market account available to ensure that there is sufficient flexibility to move funds if circumstances require, and to achieve a wide spread of investments.

Building Societies

21. UK building societies that hold lower or no credit ratings will be considered to be of "high credit quality" if they have been issued a certificate of eligibility under the UK Government's 2008 Credit Guarantee Scheme. The capital adequacy of these societies has been assessed by the Treasury, and they are eligible to raise funding with a government guarantee if they have trouble raising it elsewhere.
22. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. Investments in lower rated and unrated building societies will be reviewed if the insolvency regime is amended.

Forward deals up to one year

23. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Policy for non-specified investments and credit criteria used

24. Non-specified investments are those that do not meet the criteria for specified investments.
25. The advice of our treasury management consultants will be sought prior to making any long-term investment as to appropriateness of the investment.
26. Non-specified investments may be made subject to the limits set out in Table C:

	Minimum credit ratings (Fitch)			Maximum limits	
	Long-term	Individual	Support	Term up to	Sum
UK Banks	See Table D				
Subsidiaries of UK Banks	See Table D				
Local authorities	N/A	N/A	N/A	5 years	£1m
UK Building Societies	See Table E				
UK Government bonds (gilts)	N/A	N/A	N/A	5 years (to maturity of gilt from date of purchase)	£7m
Multinational Development Banks	AAA rated			5 years	£1m

27. The maximum duration of a long-term investment with a UK bank will depend upon its lowest published long-term credit rating based on the criteria set out in Table D:

Long-term credit rating	Individual rating	Support rating	Time limit	Maximum sum
AAA	B	2	5 years	£1m
AA+	B	3	4 years	£1m
AA	B	3	3 years	£1m
AA-	B	3	2 years	£1m

28. The maximum duration of a long-term investment with a UK bank will depend upon its lowest published long-term credit rating based on the criteria set out in Table E:

Long-term credit rating	Individual rating	Support rating	Time limit	Maximum sum
AAA	B	2	5 years	£1m
AA+	B	3	4 years	£1m
AA	B	3	3 years	£1m
A	B/C	3	2 years	£1m

29. The limit on the amount that may be held in non-specified investments at any time in the financial year is £7 million (excluding any accrued interest).

Policy for liquidity of investments

30. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The following table sets out the maximum, minimum and expected range of investments held at various times of the year:

Time of year	Long-term investments		Short-term investments	
	Maximum	Minimum	Maximum	Minimum
	%	%	%	%
Start of year	100	0	100	75
June	50	0	100	50
September	50	0	100	50
December	50	0	100	50
End of year	100	0	100	0

31. The proportions in the table reflect that at the end of the year cash inflows are low because tax receipts are received in 10 instalments from April to January. Therefore, long-term investments may represent the entire investment portfolio for a short time. Normally it is expected that long-term investments will not exceed 50% of total investments.
32. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:
- No more than £5 million of outstanding investments are to be over 3 years until maturity, and

- No more than £7 million of outstanding investments are to be over 1 year until maturity.

33. The maximum term of any one investment is 5 years.

Other issues

Investments defined as capital expenditure

34. The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.
35. A loan or grant to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure. It is therefore important that it is clearly identified when the loan has made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The framework for 'specified' and 'non-specified' investments will govern investments that are for treasury management purposes.

Forward deals for more than one year

36. Forward deals with banks and building societies that meet the appropriate credit rating criteria for non-specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is greater than one year may be made subject to the limits set out in the "Policy for liquidity of investments" section.

Investment of money borrowed in advance on need

37. Borrowing in advance of need (if any) will only be undertaken if there is a risk that funds would otherwise not be accessible on the date they are required, or the terms of the borrowing are demonstrably favourable.

Provisions for credit-related losses

38. If any of the Council's investments appear at risk of loss due to default (i.e. this a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

Review of investment strategy

39. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its Treasury Management Practices.
40. This Strategy may be amended on these occasions, or other circumstances as may be appropriate. Any revised Strategy will be approved by the full Council.
41. This Strategy is deemed to include sufficient flexibilities and delegations to avoid the need for a formal submission to the full Council being triggered by purely technical circumstances.

Investment consultants

42. The Council contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Council and its Officers. The services received include:
- advice and guidance on relevant policies, strategies and reports,
 - advice on investment decisions,
 - notification of credit ratings and changes,
 - other information on credit quality,
 - advice on debt management decisions,

- accounting advice,
 - reports on treasury performance,
 - forecasts of interest rates, and
 - training courses.
43. The quality of this service is controlled by the Director of Finance assessing the quality of advice offered and other services provided by Sterling Consultancy Services. In particular, the Director of Finance holds regular (normally 3 to 4 times a year) meetings with Sterling Consultancy Services where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.
44. In addition, a market testing exercise is conducted every three years when other treasury consultants are invited to submit proposals to carry out the service. These proposals are analysed for quality and price in accordance with the procedures set out in the rules on the use of professional and consultancy services published in the Council's Constitution (as part of Standing Orders for Contracts).

Investment training

45. The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Relevant training courses, seminars and conferences are provided by Sterling Consultancy Services.
46. A new Joint Qualification with the Association of Corporate treasurers was launched in 2009. The course is designed to give students a fundamental understanding of the core aspects of treasury management. Whilst the course does have a public sector focus, it also covers many aspects of treasury management which are currently relevant to corporates rather than public bodies. The appropriateness of this qualification for Officers will be kept under review.

Publication of this Strategy

47. This Strategy is published in the Minutes of the Council and is available on the Council's website under 'Finance' and then 'Treasury Policies'. A copy of this Strategy will be made available to the public free of charge in print if requested.

Definitions

(Negative) Rating Watch – Fitch Ratings

Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

Review for possible downgrade - Moody's (Standard & Poor's is very similar)

Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed

(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)

Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

11. Treasury Management and Trust Funds

Treasury Management Policy

- 11.1 The Council shall adopt the key recommendations contained in the CIPFA publication "Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes" (the Code), published in 2009.
- 11.2 The Council will create and maintain, as the cornerstones for effective treasury management:
- A treasury management policy statement, stating the policies and 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 the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

- 11.3 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 11.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement and treasury management practices and CIPFA's *Standard of Professional Practice on Treasury Management*. The Corporate Management Committee is the body that makes recommendations on treasury management to the full Council.
- 11.5 The Council nominates the Overview and Scrutiny Select Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Practices

- 11.6 The content of treasury management practices will follow the recommendations contained in Section 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Any such amendments will not result in the Council materially deviating from the Code's key recommendations.

Reporting on Treasury Management Activities

- 11.7 Before the start of the financial year the Director of Finance shall report to the Corporate Management Committee on the strategy for treasury management it is proposed to adopt for the forthcoming financial year.
- 11.8 The Director of Finance shall report to the Corporate Management Committee not less than once in each financial year on the activities of the Treasury Management operation and on the exercise of Treasury Management powers delegated to him. The Director of Finance shall also prepare an Annual Report on Treasury Management for presentation by 30th June of the succeeding financial year.

Trust Funds

- 11.9** All trust funds shall be in the name of the Council unless specifically approved by the Council otherwise.
- 11.10** All Officers acting as trustees by virtue of their official position shall deposit all securities etc. relating to the Trust with the Director of Administration and Leisure unless the deed otherwise provides.

Investments and Borrowings Records

- 11.11** The Director of Finance shall make all borrowings and investments in the name of the Council, except where and to the extent the Council has authorised its investments to be invested by an outside agent.
- 11.12** The Director of Finance shall maintain a register of loans and investments and records of all borrowings and investments made by the Council.
- 11.13** All negotiable investments, financial bonds and securities held in the name of the Council or its nominees shall be held under secure arrangements.
- 11.14** The requirements of the Council's Treasury Management Policies and Treasury Management Schedules must be followed at all times.

RUNNYMEDE BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction

This Statement sets out the Council's treasury management policy.

It meets the recommendations set out in the *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (2009 Edition) issued by the Chartered Institute of Public Finance and Accountancy.

2. Definition of Treasury Management Activities

Treasury management comprises the management of the Council's investments cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.

3. Statement of Overall Policy

The Council 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 Council.

The Council 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

January 2010

TREASURY MANAGEMENT PRACTICES

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Version updated following consideration by the Corporate Management Committee on 4 February 2010, for reporting to Council on 9 March 2010.

TREASURY MANAGEMENT PRACTICE 1

Risk Management

General Statement

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Director of Finance will report at least annually on the suitability of these arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information systems*. In respect of each of the following risks, the arrangements will seek to ensure compliance with these objectives.

1. Credit and counterparty risk management

Credit and Counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods, and techniques referred to in *TMP4 Approved instruments methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organizations from which it may borrow, or with whom it may enter into other financing arrangements.

2. Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business objectives will therefore be compromised.

The Director of Finance will ensure that the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

3. Interest Rate Risk Management

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information systems*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a significant degree of flexibility to take advantage of the unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

4. Exchange Rate Risk Management

The Council will manage its exposure to exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Refinancing risk management

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at that time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

6. Legal and Regulatory Risk Management

This is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

7. Fraud, error and corruption, and contingency management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

8. Market risk management

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TREASURY MANAGEMENT PRACTICE 2

Performance measurement

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the Schedule to this document.

TREASURY MANAGEMENT PRACTICE 3

Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 4

Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Schedule and Annual Investment Strategy, and within the limits and parameters defined in TMP1 *Risk management*.

TREASURY MANAGEMENT PRACTICE 5

Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this is based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the Treasury Management Schedule.

The Director of Finance will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Treasury Management Schedule.

The delegations to the Director of Finance in respect of treasury management are set out in the Treasury Management Schedule. The Director of Finance will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TREASURY MANAGEMENT PRACTICE 6

Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

The Corporate Management Committee will receive regular monitoring reports on treasury management activities and risks.

The Overview and Scrutiny Select Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Council will receive a report on the treasury management indicators set out in the CIPFA Code and associated guidance.

The present arrangements and the form of these reports are detailed in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 7

Budgeting, accounting and audit arrangements

The Director of Finance will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management which will bring together the costs of running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance management*, and TMP4 *Approved instruments, methods and techniques*. The Director of Finance will exercise effective controls over the budget, and will report on changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TREASURY MANAGEMENT PRACTICE 8

Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Director of Finance and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that they are adequate for the purposes of monitoring liquidity in compliance with TMP1(2) *Liquidity risk management*. The present arrangements for preparing cash flow projections are set out in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 9

Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 10

Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will recommend and implement the necessary arrangements.

The Director of Finance will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance (Councillors) should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are set out in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 11

Use of external service providers

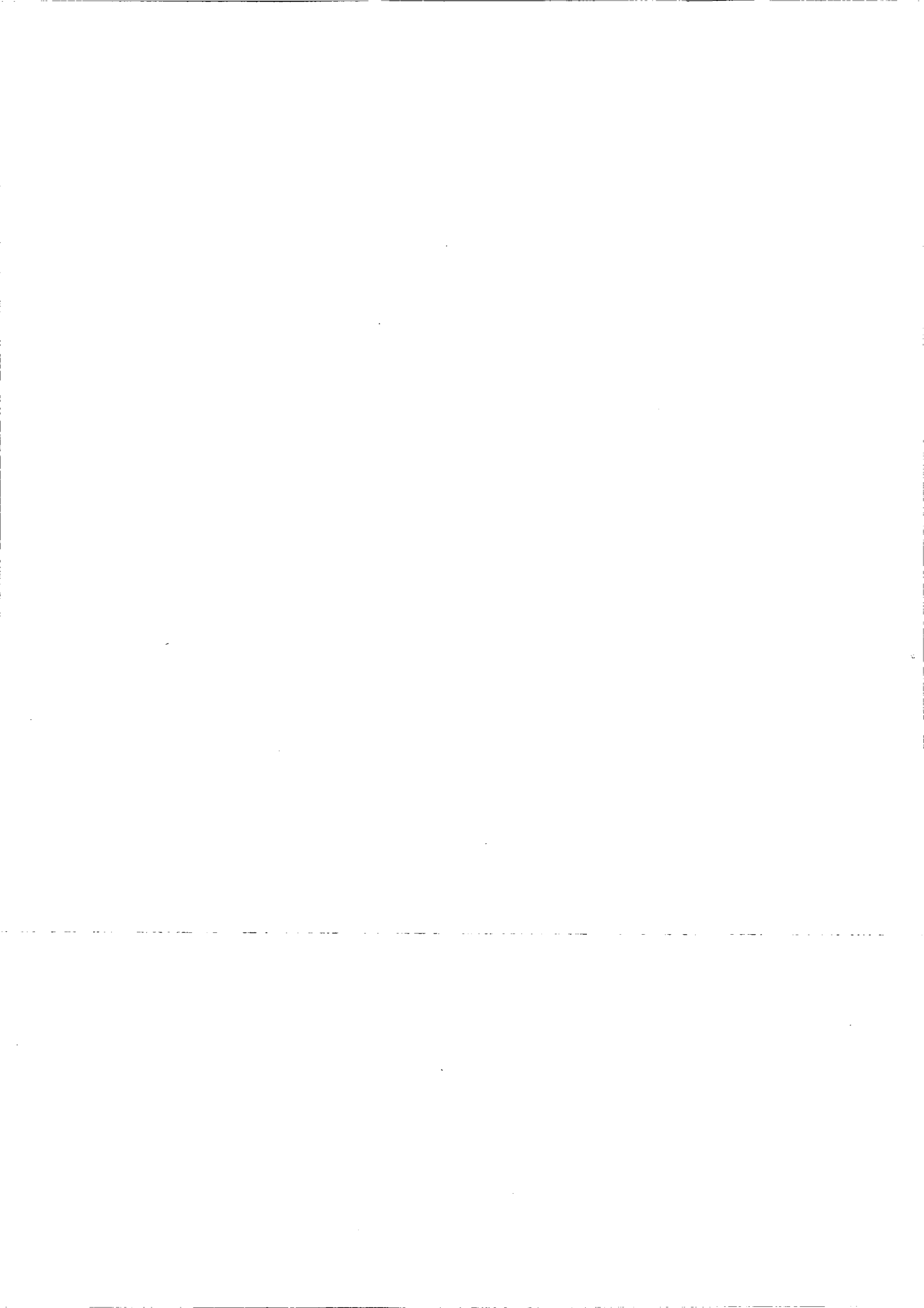
The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of costs and benefits. It will also ensure that the terms of appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance and details of the current arrangements are set out in the Treasury Management Schedule.

TREASURY MANAGEMENT PRACTICE 12

Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management functions and activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Schedules, are considered vital to the achievement of proper corporate governance in treasury management and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.



PRUDENTIAL INDICATORS FOR THE 2010/11 BUDGET

Prudential Indicators for Affordability

1. Estimates of the ratio of financing costs to net revenue stream.

This is a ratio (expressed as a percentage) of estimated financing costs compared to an estimate of the "net revenue stream". This ratio must be prepared for both the General Fund and HRA, and also for a combination of the two.

For Runnymede, financing costs comprise mainly investment income, offset by a small amount of borrowing costs.

The "net revenue stream" is a term used to describe the amount in the General Fund to be met from government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent, and other income.

The ratios are set down in Table 1:

Table 1 - Ratio of financing costs to net revenue stream			
	General Fund	HRA	Overall
	Ratio	Ratio	Ratio
2008/09 Actual	-16.95%	14.39%	1.62%
2009/10 Estimate	-6.99%	15.21%	6.05%
2010/11 Estimate	-3.82%	15.04%	7.19%
2011/12 Estimate	-5.63%	15.04%	6.48%
2012/13 Estimate	-8.27%	14.78%	5.30%

The General Fund ratio is a negative percentage because investment income significantly exceeds any marginal borrowing costs. The significant drop in the General Fund ratio between the 2008/09 actual and the following years, reflects the lower investment income resulting from lower balances and the fall in interest rates.

The HRA ratio is a positive figure because the depreciation charge (equivalent to the Major Repairs Allowance) is treated as a financing cost.

2. Actual financing costs to net revenue stream

This figure is calculated in the same way as for the estimates. The actual for 2008/09 is shown in Table 1 for illustrative purposes.

3. Estimates of the incremental impact of capital investment decisions on the Council Tax & Rents

This is a measure of affordability i.e. the impact of changes to the capital programme on Council Tax and housing rents. This indicator looks at CHANGES to the capital programme and is in the nature of a "before and after" exercise. It looks at the revenue costs (including capital financing charges) and any savings or incomes arising from the proposed changes.

Of all the performance indicators, this is the most difficult to interpret. The indicator does not distinguish between capital schemes that have an element of choice, or those that are critical (or statutory).

The calculation is required separately for General Fund and HRA capital investment decisions. Table 2 sets out these indicators.

	Council Tax (At Band D)	Average Weekly HRA Rents
	£	£
2009/10 Estimate	-0.52	0.00
2010/11 Estimate	-0.19	0.00
2011/12 Estimate	-0.50	0.00
2012/13 Estimate	-0.72	0.00

Impact on Council Tax

The starting point in calculating this indicator is establishing a base position. For this purpose the capital programme used in the 2009/10 Budget Book has been used. New schemes that are in the Capital Programme for 2010/11 are counted in the indicator as the relevant 'capital spending decisions'. Capital budgets that form an established part of the capital programme (e.g. grant aid, computer hardware replacement programme) do not represent incremental changes to the programme and are only taken into the calculation when a major change occurs in their provision. Schemes that follow on from 2009/10, either as a result of slippage or planned completion are also not taken into the calculation.

The impact of the capital programme has always formed part of the financial planning process in Runnymede. The costs and savings form part of the Financial Strategy approved by the Council. At a detailed level, the Council's capital project appraisal rules require the estimated costs and benefits of individual schemes to be considered by the relevant Committees before any approvals are granted.

Impact on Housing Rents

The capital programme for the HRA comprises the ongoing planned major repair and improvement programmes, and a modest provision of £40,000 for the assisted private purchase schemes. The Council's forward Housing Capital Programme for HRA related projects is based on no changes other than those included in the HRA Business Plan (based on need to spend and the profile of that spending), hence the impact of incremental changes on rents is nil.

The indicator for the HRA is misleading. Rents are set according to the government rent restructuring formula. Expenditure on housing stock (capital and revenue) is based on allowances made in the HRA Subsidy system, plus any locally generated incomes (e.g. garage rents) and savings. The link between rent and expenditure is therefore very tenuous.

Prudential Indicators for Prudence

4. Net borrowing & the capital financing requirement

By law local authorities can only borrow to finance capital expenditure. Other than for short-term cash flow requirements, an authority cannot plan to borrow to finance revenue deficits. This indicator is intended to be the key indicator for prudence, i.e. to illustrate that any borrowing is only for capital purposes.

Runnymede does not have net external borrowing, but net investments. This is because all debt has been repaid and the accumulation of revenue and capital reserves has generated equivalent cash balances.

The "Capital Financing Requirement" is the term used to describe the underlying need to borrow for a capital purpose. The underlying need is different from the actual need because of the presence of revenue balances and associated cash flows that enable treasury activities to be undertaken in a holistic manner.

The capital financing requirement will increase where existing resources (e.g. capital receipts, or government grant or other contributions) are not sufficient to finance capital expenditure. In this instance the authority's underlying need to borrow will increase (irrespective of immediate cash requirements).

The capital financing requirement for Runnymede is £8,000. This results from the way in which the Council was required to capitalise certain investments (Floating Rate Notes) in prior years.

Table 3 - Net borrowing & the capital financing requirement			
	Net external borrowing (investments) at the year end	Capital Financing Requirement	Headroom
	£000	£000	£000
2009/10 Estimate	(12,074)	8	(12,066)
2010/11 Estimate	(7,130)	8	(7,122)
2011/12 Estimate	(15,444)	8	(15,436)
2012/13 Estimate	(15,967)	8	(15,959)

For Runnymede this is a particularly difficult indicator to interpret. The key point is that the Council does not currently plan to use debt to finance its capital programme, i.e. the current programme will be financed by capital receipts, and grants and contributions.

It is possible that the Council may need to borrow for capital purposes in the future, particularly if planned capital receipts are not realised. For instance, the receipt from the sale of the old police station and former Civic Offices site is forecast in 2011. However, if this receipt is not realised, the capital financing requirement may significantly increase in 2011/12 and depending on the overall cash position, borrowing may be required. In this instance the purpose behind this prudential indicator is that relevant borrowing should not exceed the capital financing requirement.

Prudential Indicators for Capital Expenditure

5. Estimates of Capital Expenditure

This indicator is simply an extract from the Council's capital programmes. Table 4 summarises the estimates by service area:

Table 4 - Estimates of capital expenditure by service area					
	2008/09 Actual	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£000	£000	£000	£000	£000
Homes First (Note 1)	370	1,224	2,150	1,500	1,500
Housing Renewal	409	543	530	540	549
Community Services	107	34	250	-	-
Leisure Services	421	461	220	187	170
Environmental Services	63	226	1,210	510	110
Economic Development	179	510	582	143	143
Civic Offices Re-provision	945	-	389	-	-
IT	354	350	252	239	215
Other	39	91	53	53	53
Total – General Fund	2,887	3,439	5,636	3,172	2,740
Housing stock schemes	4,789	3,039	2,875	3,081	3,065
Grand Total	7,676	6,478	8,511	6,253	5,805

The Prudential Code requires the capital programme to be approved when the indicators are produced. The capital programme forms part of the overall Budget approval process accordingly. Capital expenditure is a significant source of risk and uncertainty since cost variations, slippage or acceleration of major projects and changing specifications are often a feature of capital schemes. Capital expenditure also carries risk in relation to the availability of capital finance from capital receipts, grants and external contributions. For Runnymede, planned capital spending is often heavily dependent on achieving capital receipt targets.

Note 1

The figures for the "Homes First" service area (provision of affordable housing) are those elements of the Council's overall housing capital programme that is financed from Runnymede capital resources. Therefore, the figures exclude new affordable housing schemes financed directly by the government and the Homes and Communities Agency.

6. Actual Capital Expenditure

The actual capital expenditure for 2008/09 is shown in Table 4.

7. Estimates of Capital Financing Requirement

Note: The Capital Financing Requirement is also used in the preparation of prudential indicator 4.

The Capital Financing Requirement is designed to show the underlying need to borrow for a capital purpose. The underlying need is different from the actual need because of the presence of revenue balances and associated cash flows that enable treasury activities to be undertaken in a holistic manner.

The Capital Financing Requirement will not increase where capital expenditure is financed from capital receipts, or government grant or other contributions. Where existing resources are not sufficient to finance capital expenditure, this will increase the authority's underlying need to borrow (irrespective of immediate cash requirements).

In the medium term net borrowing can only be for a capital purpose. This is because local authorities cannot borrow for revenue purposes (except for short-term cash flow needs). Therefore, net external borrowing must not exceed the total of the capital financing requirement for the preceding year plus the estimates for the following three years.

This indicator requires separate estimates for the HRA capital financing requirement (as determined under legislation), and for the General Fund. These estimates are set out in Table 5.

	General Fund	HRA	Total
	£000	£000	£000
2008/09 Actual	8	0	8
2009/10 Estimate	8	0	8
2010/11 Estimate	8	0	8
2011/12 Estimate	8	0	8
2012/13 Estimate	8	0	8

It is possible that the Council may need to borrow for capital purposes in the future, particularly if planned capital receipts are not realised. For instance, the receipt from the sale of the old police station and former Civic Offices site is forecast in 2011. However, if this receipt is not realised, the capital financing requirement may significantly increase in 2011/12 and depending on the overall cash position, borrowing may be required. In this instance the purpose behind this prudential indicator is that relevant borrowing should not exceed the capital financing requirement.

These estimates do not commit the Council to particular methods of financing. The Council will continue to determine the actual financing of capital expenditure incurred after the end of the particular financial year.

8. Actual Capital Financing Requirement

This figure is calculated as for the estimates except that it is an extract from the Council's Statement of Accounts. The actual for 2008/09 is shown in Table 5.

Prudential Indicators for External Debt

9. Authorised Limit

The "Authorised Limit" is simply a limit on the maximum amount the authority expects to borrow at any one point in time. The limit includes short-term borrowing. The Council has no external long term debt and is unlikely to borrow long term in the foreseeable future. However, there may on occasion be cause to borrow for the short term.

The Council has a portfolio of medium term cash investments using funds that are not required in the short term. The remainder of cash balances are invested as required to meet cash flow requirements. The Council generally has strong cash flows in the first 10 months of the financial year as council tax and business rates instalments are collected.

In the last two months of the year the need to make payments of precepts to Surrey County Council and Surrey Police, contributions to the business rates pool and general revenue and capital obligations significantly reduce cash balances. In early April the cash balances are replenished as council tax and business rate instalments become receivable again.

The latest cash flow projection for 2009/10 indicates that it is unlikely that temporary borrowing will be necessary in March 2010.

The 2010/11 cash flow forecasts are dependent on capital receipts being realised in accordance with the expected programme. There are also large sums in the capital programme for the affordable housing programme. The timing of these spending commitments will also significantly impact on the level of cash reserves.

Should the timing of cash flows from capital receipts or expenditure be different from the forecast, then it may be necessary to borrow temporarily to cover the shortfall. Short-term borrowing may also arise from two specific areas:

- Day to day cash management of the authority's bank account which will on occasion be in overdraft; and
- The need to meet unexpected payments prior to the availability of monies previously invested.

This time last year, a limit of £3,000,000 was set for 2009/10 and subsequent years. This limit should be sufficient for the following three years provided that the timing of capital receipts does not change. If there are delays in land sales, the Council may have to revise the indicator upwards at a future date.

The authorised limit for 2010/11 is also the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Financial Year	£'000
2009/10	3,000
2010/11	3,000
2011/12	3,000
2012/13	3,000

10. Operational Boundary

The operational boundary is the term used to describe the most likely scenario of cash flow movements and equates to the maximum level of external debt projected by the authorities estimates. The Authorised Limit differs in that it provides over and above the operational boundary for unusual cash movements (hence, one is a **limit**, the other a **boundary**).

For Runnymede, an operational limit of £2m is appropriate and will act as a warning signal that cash flows are not as robust as expected.

Financial Year	£'000
2009/10	2,000
2010/11	2,000
2011/12	2,000
2012/13	2,000

11. Actual External Debt

This is a simple year-end figure taken from the Statement of Accounts. In comparison with the Authorised Limit and Operational Boundary this is just the debt at a point in time (i.e. 31 March).

	Borrowing	Overdraft	Long Term Liabilities	Total
	£'000	£'000	£'000	£'000
Short Term Borrowing	27	0	0	27

This statistic comprises a small sum borrowed from the Cabrera Trust (which gives the Trust certainty of income and quick access if needed).

Prudential Indicators for Treasury Management

12. Code of Practice for Treasury Management

The prudential indicator in respect of treasury management is that the Council has adopted the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*.

The revised code was published in November 2009 and replaced the former Code of practice which was adopted by the Council in October 2002. The new requirements in the revised code are set out in the Annual Investment and Treasury Management Strategy report presented elsewhere on this agenda. The approval of this set of Prudential Indicators confirms that the Council adopts the revised CIPFA code published in 2009.