APPENDIX 4

HEREFORDSHIRE COUNCIL

PRUDENTIAL INDICATORS 2005/06

1. INTRODUCTION

The PIs set out below are recommended by the Prudential Code. However members may prefer additional or alternative indicators that will help with the decision making process. The indicators set out below are based on a total of £7,607,000 Prudential Borrowing for 2005/06, of which £423,000 is for schemes for which the capital financing costs are met from existing revenue budgets. The indicators for future years continue to be based on the assumption of a provisional £5,000,000 Prudential Borrowing per year.

2. ACTUAL AND ESTIMATED CAPITAL EXPENDITURE

This table takes into account new borrowing for which the government is providing support, government grants, capital receipts, other funding (including s106 receipts) and Prudential Borrowing. The second table shows how this programme would be funded.

Capital Programme Area:-	**2004/05 £'000**	**2005/06 £'000**	**2006/07 £'000**	**2007/08 £'000**
Economic Development	3,805	1,238	245	0
Education	5,857	6,655	3,251	2,763
Environment General	11,974	13,424	11,759	12,259
Policy & Finance - ICT Services	2,803	2,576	2,233	1,933
Policy & Finance - General	265	0	0	0
Policy & Finance - Property	503	350	250	250
Social Care	473	605	125	125
Social Development	2,792	1,958	63	0
Strategic Housing	5,435	10,325	7,705	5,325
Potential Prudential Borrowing to be allocated	0	0	2,137	2,150
	33,907	**37,131**	**27,768**	**24,805**
By funding				
Capital Receipts Reserve	4,925	4,670	3,299	3,324
Grants	7,585	11,055	5,703	3,234
SCE(R)	16,656	13,679	13,766	13,247
Revenue Contribution	0	120	0	0
Agreed Prudential Borrowing	4,741	7,607	2,863	2,850
Prudential Borrowing to be agreed (for £5m total)	0	0	2,137	2,150
	33,907	**37,131**	**27,768**	**24,805**

3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The net revenue stream is the budget amount to be met from Formula Grant and Council Tax income (the budget requirement). The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs.

	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Net Revenue Stream	175,320	184,889	195,221	205,194
Capital Financing Requirement	7,418	8,562	10,469	12,362
Ratio of financing costs to net revenue stream	4.23%	4.63%	5.36%	6.03%

4. CAPITAL FINANCING REQUIREMENT

This indicator represents the Authorities underlying need to borrow for a capital purpose.

	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Capital Financing Requirement (as at 31/3)	96,486	112,347	125,149	136,341

5. AUTHORISED LIMIT FOR EXTERNAL DEBT

The Authorised Limit for external debt represents the absolute maximum level of debt that may be incurred. This limit would only be reached in exceptional circumstances.

	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Borrowing	119,000	133,000	151,000	169,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**122,000**	**136,000**	**154,000**	**172,000**

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

The Operational Boundary for external debt is the prudent expectation of the maximum level of external debt.

	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Borrowing	73,500	94,500	108,500	121,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	**75,000**	**96,000**	**110,000**	**123,000**

7. COUNCIL TAX IMPLICATIONS OF THE INCREMENTAL EFFECT OF CAPITAL DECISIONS

This indicator represents the increases in Council Tax resulting from unsupported Prudential Borrowing. These figures will need to be revised following the decisions taken by Council.

	2005/06	2006/07	2007/08
	£ p	£ p	£ p
Increase in council tax (Band D, per annum) based on Prudential Borrowing of £7,607,000 taken for 2005/06 and £5,000,000 per year for subsequent years.	5.66	13.91	20.62

8. TREASURY MANAGEMENT INDICATORS

These are specific indicators which relate to the management of the Treasury Management process. The upper limit for variable rate borrowing is recommended to be increased in order to allow more flexibility to react to changes in market conditions.

	2004/05	2005/06	2006/07	2007/08
Upper Limit for Fixed Interest Rate Exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure				
Net principal re variable rate borrowing / investments	50%	50%	50%	50%

Maturity Structure of new fixed rate borrowing during 2004/05	**Upper Limit**	**Lower Limit**
Under 12 Months	30%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	90%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	20%

Upper Limit for total principal sums invested for over 364 days	**2004/05**	**2005/06**	**2006/07**	**2007/08**
	£'000	**£'000**	**£'000**	**£'000**
(per maturity date)	10,000	10,000	10,000	10,000

APPENDIX 5

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2005/06

1. INTRODUCTION

1.1 The Financial Policy Team is responsible, under the direction of the County Treasurer for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for borrowing and Annual Investment Strategy for 2005/06 details the expected activities for the Team in the coming financial year and has been produced in accordance with the Council's approved Treasury Management Policy Statement.

1.2 The 2003 Prudential Code for Capital Finance in local authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of this integrated Treasury Management Strategy.

1.3 The Treasury Management Strategy covers the: -

- current treasury portfolio position
- treasury limits for 2005/06
- prudential indicators for 2005/06 – 2007/08
- prospects for the economy and interest rates
- borrowing strategy
- debt rescheduling opportunities
- specified and non-specified investments
- investment objectives
- security of capital: the use of credit ratings
- investment strategy
- externally managed funds
- end of year report

2. CURRENT TREASURY PORTFOLIO POSITION

2.1 The Council's treasury portfolio position as at 31 January 2005 is as follows: -

DEBT POSITION	**Principal (£)**	**Borrowing Rate (%)**
Public Works Loan Board	50,886,555	4.96
Market Debt	12,000,000	2.05
Total Debt	**62,886,555**	

Estimated Borrowing Requirement for 2005/06 – supported borrowing approvals of approximately £13,679,211, plus the potential for an additional £5,423,000 unsupported borrowing under the Prudential Code. In addition refinancing of maturing debt of £9,423,523 in the year will be required.

INVESTMENT POSITION	Principal (£)	Rate of Return (%)
Internally managed funds	29,846,098	4.79
Externally managed funds	7,094,101	4.82
Total Investments	**36,940,199**	

Note: Total investments will decline sharply in the last two months of the financial year as capital projects near completion.

3. TREASURY LIMITS FOR 2005/06

3.1 It is a statutory duty under Section 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". The authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

3.2 The Council must have regard to the Prudential Code when setting their Affordable Borrowing 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 levels is 'acceptable'.

3.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. The Council has already indicated an affordable Prudential Borrowing limit of £5,000,000 per year and the effect of this is set out in the Prudential Indicators below.

4. PRUDENTIAL INDICATORS FOR 2005/06 – 2007/08

4.1 The following prudential indicators are relevant for the purposes of setting an integrated Treasury Management Strategy.

PRUDENTIAL INDICATOR	2004/05	2005/06	2006/07	2007/08
(1). Extract from Budget Setting Report				
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**
	33,907	37,131	27,768	24,805
Ratio of financing costs to net revenue stream				
Net Revenue Stream	175,320	184,889	195,221	205,194
Financing Costs	7,418	8,562	10,469	12,362
Ratio of financing costs to net revenue stream	4.23%	4.63%	5.36%	6.03%

	2004/05	2005/06	2006/07	2007/08
Affordable Borrowing Limit	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (Band D, per annum) (Prudential borrowing of 2005/06 = £7.607m, 2006/07 = £5.0m, 2007/08 = £5.0m)	£0.00	£5.66	£13.91	£20.62
Capital Financing Requirement (as at 31/3)	**£'000**	**£'000**	**£'000**	**£'000**
Total	£96,486	£112,347	£125,149	£136,341

PRUDENTIAL INDICATOR	**2004/05**	**2005/06**	**2006/07**	**2007/08**
(2). Treasury Management Prudential Indicators				
Authorised Limit for External Debt	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	£119,000	£133,000	£151,000	£169,000
Other Long Term Liabilities	£3,000	£3,000	£3,000	£3,000
Total	£122,000	£136,000	£154,000	£172,000
Operational Boundary	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	£73,500	£94,500	£108,500	£121,500
Other Long Term Liabilities	£1,500	£1,500	£1,500	£1,500
Total	£75,000	£96,000	£110,000	£123,000
Upper Limit for Fixed Interest Rate Exposure	**£ or %**	**£ or %**	**£ or %**	**£ or %**
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	**£ or %**	**£ or %**	**£ or %**	**£ or %**
Net principal re variable rate borrowing / investments	50%	50%	50%	50%

Maturity Structure of new fixed rate borrowing during 2005/06	**Upper Limit**	**Lower Limit**
Under 12 Months	30%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	90%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	20%

Upper Limit for total principal sums invested for over 364 days	**2004/05 £'000**	**2005/06 £'000**	**2006/07 £'000**	**2007/08 £'000**
	10,000	10,000	10,000	10,000

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

5.1 The Council retains Sector Treasury Services Limited as its treasury advisers and part of their service is to assist in forming a view on economic trends and the effect on interest rates. This section of the strategy outlines the Council's view of the economy and interest rates based on the advice of its treasury advisers.

Economic Background

UK

- Above trend Gross Domestic Product (GDP) robust, but indications of weakening activity ahead.
- Slowdown in household spending and weakening housing market.
- Benign inflation at present, may rise in 2005 as high street competition cannot sustain the current situation against the effect of rising oil prices.
- Sterling expected to remain at $1.80 or above.

International

- US - measured interest rate raising by the Federal Reserve; weak trend employment data.
- Consumer slowdown shows no signs of abating and this will be compounded by high oil prices, rising interest rates, the fading effects of past tax cuts and a faltering labour market.
- US inflation benign.

- European Central Bank (ECB) has held repo rate at 2.00% since June 2003.
- Weak domestic demand/export led growth indicates an economy about to suffer as world economy expected to slow.

Interest rate forecast

- The base rate is expected to rise to 5.00% in Q1 2005, but is nearing the peak of the cycle, and is consequently expected to fall back in 2005.

Long term 25 year PWLB rate:

- Expected to remain around 4.75%
  - Housing market to weaken from fast market increases causing consumers to feel the pinch.

  - Slower global growth driven by weakness in the US

Interest Rates

5.2 Having set the scene in economic terms, the likely impact for interest rates can be assessed and is illustrated in the following tables.

Table 1 Sector Treasury - Interest Rate Forecast

(This table represents the view of the Council's Treasury advisors as at January 2005)

%	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Base Rate	5.00	5.00	4.75	4.75	4.50
10 Year PWLB	5.00	4.75	4.75	4.75	4.75
25 Year PWLB	4.75	4.75	4.75	4.75	4.75

Table 2 Summary of Independent Forecasts of Base Rate

(This table represents the views of independent forecasters views of base rate as at November 2004)

%	2005 Year end	2006 average	2007 average	2008 average
Average	4.71	4.81	4.82	4.76
Highest	5.25	5.50	5.25	5.25
Lowest	3.90	4.10	4.10	3.80

6. BORROWING STRATEGY

6.1 Based upon the prospects for interest rates outlined above, there are a number of strategy options available. The anticipation is that there is not likely to be much difference between short-term variable PWLB rates and medium and long-term PWLB fixed rate borrowing during 2005/06 provided base rate falls from 5.0% to 4.75% as expected in quarter 3 of 2005. Variable rate borrowing will therefore be slightly more expensive than long-term fixed borrowing during quarter 2, but is expected to become cheaper in quarter 1 of 2006 when base rate is forecast to fall to 4.5%. Thereafter variable rate borrowing is expected to become still cheaper during 2006 and so the gap will widen further between long-term fixed and variable rates. Long-term rates are not currently expected to move significantly in 2005/06 but may drift to the downside.

6.2 These interest rate expectations provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term or to make short term savings required in order to meet budgetary constraints. Money Market debt will also be considered where opportunities are available to minimise borrowing costs in the short term. These have recently become more attractive than PWLB rates and therefore the County Treasurer will carefully monitor the interest rates available and take advice from the Treasury Management Consultants over the timing of any new borrowing. If fixed PWLB rates should fall significantly, then a suitable trigger point for considering new fixed rate long-term borrowing would be about 4.5%.

- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2005/06, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

6.3 Against this background caution will be adopted with the 2005/06 treasury operations. The County Treasurer will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

6.4 **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 view:

- ***If it was 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, 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 was felt that there was a significant risk of a sharp fall in long and short term rates,*** due to e.g. growth rates remaining low or weakening, then long term borrowings will be postponed, and any rescheduling from fixed rate funding into variable or short rate funding will be exercised.

7. DEBT RESCHEDULING OPPORTUNITIES

7.1 Opportunities may exist for restructuring long-term debt into short-term variable rate debt to produce savings later in the year, particularly once base rate has fallen to 4.5%. With variable rate borrowing rates likely to fall significantly during 2005/06, it will be best to avoid restructuring into fixed borrowing for short periods (e.g. one year). Long-term fixed rates are not expected to rise above 5.25% during 2005/06. Consequently long-term debt rates at or above 4.90% would warrant reviewing the potential for undertaking debt restructuring.

7.2 Money market debt will also be considered as part of debt rescheduling, where opportunities exist to replace high rated PWLB loans with lower rated market debt to produce interest savings over the short term (between one and four years). The County Treasurer will carefully monitor interest rates and take advice from the Treasury Management Consultants over the timing of any debt rescheduling.

7.3 Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 6 above. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk
- the borrowing strategy outlined above
- a better balance in the maturity profile of the long-term debt portfolio
- a better balance in the ratio of variable to fixed interest rate loans in the long-term debt portfolio.

8. SPECIFIED AND NON-SPECIFIED INVESTMENTS

8.1 Under CIPFA's Treasury Management Code of Practice and the ODPM's Guidance on Local Government Investments issued in March 2004 the Council is required to formulate a strategy each year regarding its investments.

8.2 This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non-Specified Investments** as detailed in **Annex A**.

8.3 This Annex sets out:

- The procedures for determining the use of each category of investment (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments."
- The maximum periods for which funds may be prudently committed in each category.
- Whether the investment instrument is to be used by the Council's in-house officers and/or by the Council's appointed external fund managers (Investec Asset Management); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council's treasury advisors (Sector Treasury Services Ltd).

9. INVESTMENT OBJECTIVES

9.1 All investments will be in sterling. The general policy objective for Herefordshire Council is the prudent investment of its treasury balances*. The Council's investment priorities are:

(a) the **security** of capital; and

(b) **liquidity** of its investments.

The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

* This includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need).

9.2 The ODPM guidance maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

10. SECURITY OF CAPITAL: THE USE OF CREDIT RATINGS

10.1 The Council relies on credit ratings published by *Fitch Ratings, Moody's Investors Service or Standard & Poor's* to establish the credit quality of counterparties and investment schemes. The Council has also determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment in conjunction with its Treasury Management advisor.

10.2 **Monitoring of credit ratings:**

- All credit ratings will be monitored monthly: The Council has access to Fitch credit ratings and is alerted to changes from its Treasury Management advisor.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. Any intra-month credit rating downgrade, which the Council has identified, that affects the Council's pre-set criteria will also be similarly dealt with. The Council will also immediately inform its external fund manager of the withdrawal of the same.

- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the County Treasurer.

11. INVESTMENT STRATEGY

11.1 The County Treasurer manages part of the Council's investment portfolio. Investments managed by the in-house team are generally temporary in nature and short-term. All decisions are made in the light of the Council's forecast cash flow requirements.

11.2 If, during the course of the year, the County Treasurer detects that the market's expectation for base rates has been too high, the strategy will be to keep investments as long as possible with a view to locking in higher rates of return than may be available at a later stage when market expectations are corrected.

11.3 The money market yield curve is currently anticipating falling base rates in 2005/06. The Council will therefore seek to lock in longer period investments at higher rates before this fall starts. For its cash flow generated balances, the Council will seek to utilise short-dated deposits (1-3 months), business reserve accounts and money market funds in order to benefit from the compounding of interest.

11.4 In relation to the Council's internally managed funds, the County Treasurer does not currently plan to invest over 364 days. However, the Council's External fund manager could have a maximum 50% of its investment portfolio invested for periods in excess of 364 days. The market will be continuously monitored for opportunities to lock in to higher, longer-term rates, if it is viewed that this will add stability and value to returns.

12. EXTERNALLY MANAGED FUNDS

12.1 A cash fund of £7,065,667.38 (as at 31st December 2004) is currently managed by Investec Asset Management on a discretionary basis. The Council, in conjunction with the Council's Treasury Management adviser, will monitor the external fund manager's performance in 2005/06.

12.2 The fund management agreement between the Council and Investec Asset Management formally documents the instruments it can use within pre-agreed limits.

13. END OF YEAR REPORT

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

ANNEX A

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated

Investment	**Security / Credit Rating**	**Circumstance of use**
Debt Management Agency Deposit Facility (DMADF)	Govt-backed	In-house
Term deposits with the UK government or with UK local authorities	High security although LAs not credit rated.	In-house and by external fund manager
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	Yes-varied *Minimum rating "A" Long-term and "F1" Short-term (or equivalent)*	In-house and by external fund manager
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies): up to 1 year. *Custodial arrangement required prior to purchase*	Yes-varied *Minimum rating "F1+" Short-term (or equivalent)*	External fund manager
Gilts: up to 1 year *Custodial arrangement required prior to purchase*	Govt-backed	(1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them
Reverse Gilt Repos: maturities up to 1 year	Govt-backed	External fund manager only subject to the guidelines and parameters agreed with them
Money Market Funds	Yes-varied *Minimum AAA credit rated*	In-house and by external fund manager subject to the guidelines and parameters agreed with them
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	Yes-varied *Minimum rating "A" Long-term and "F1" Short-term (or equivalent)*	In-house
Commercial paper *[Short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	Yes-varied *Minimum rating "F1+" Short-term (or equivalent)*	External fund manager only subject to the guidelines and parameters agreed with them
Gilt Funds and other Bond Funds***. *[These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date. These funds hold highly liquid instruments and the Council's investments in these funds can be sold at any time.]*	Yes *Minimum rating "AA-"*	External fund manager only subject to the guidelines and parameters agreed with them (NB: In the selection of a fund the manager will ensure that the fund is not a body corporate by virtue of its set up structure).
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	Govt-backed	In-house and external fund manager subject to the guidelines and parameters agreed with them

Investment	Security / Credit Rating	Circumstance of use
Bonds issued by a financial institution that is guaranteed by the UK Government *[As defined by Statutory Instrument 2004 No. 534, with maturities under 12 months].* *Custodial arrangement required prior to purchase*	Govt-backed	1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them
Bonds issued by a multilateral development bank *[As defined by Statutory Instrument 2004 No. 534, with maturities under 12 months].* *Custodial arrangement required prior to purchase*	AAA	1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them

***Open-ended funds continually create new units (or shares) to accommodate new monies as they flow into the funds and trade at net asset value. (NAV).

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager. In-house	50% 20%	5 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	YES-varied *Minimum rating "AA" Long-term and "F1+" Short-term (or equivalent)*	External fund manager. In-house after consultation with Treasury Management advisor	50% 20%	5 years
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager. In-house after consultation with Treasury Management advisor	50% 20%	5 years in aggregate

ANNEX A

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	Govt backed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years (but also including the 10 year benchmark gilt)
Sovereign issues ex UK govt gilts: any maturity *Custodial arrangement required prior to purchase*	AAA	(1) Buy and hold to maturity in-house after consultation from Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines & parameters agreed with them	20% 50%	10 years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	Yes-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager In-house after consultation with Treasury Management advisor	50% 20%	5 years
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution: any maturity	Not rated in their own right, but parent must be rated. *Minimum rating for parent "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	In-house	20%	1 year

ANNEX A

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in Statutory Instrument 2004 No. 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years
Bonds issued by multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years

APPENDIX 5
Annex B

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

Statement of Purpose

1. Herefordshire Council adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice (2001)* and: -

- will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities
- will make effective management and control of risk the prime objectives of its treasury management activities
- acknowledge that the pursuit of best value in treasury management, and the use of suitable measures of performance measures, are valid and important tools to employ in support of business and service objectives;
- that, within the context of effective risk management, will ensure that its treasury management policies and practices reflect the pursuit of best value;
- formally adopts Section 5 of the Code
- will adopt a treasury management policy statement as recommended in Section 6 of the Code
- will follow the recommendations in Section 7 of the Code concerning treasury management practice statements.

Definition of Treasury Management

2. Herefordshire Council defines its treasury management activities as: -

'The management of the organisations cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

Policy Objectives

3. Herefordshire Council regards the successful identification, monitoring and control of risk to 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.

4. Herefordshire Council acknowledges that effective treasury management will provide support towards the achievement of its business and services 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.

Delegation & Reporting

5. Herefordshire Council retains responsibility for the approving the Council's Treasury Management Policy and will consider amendments to it on the advice of Cabinet.

6. Herefordshire Council delegates responsibility for approving an annual Treasury Management Strategy to Cabinet as the mechanism for implementing the Treasury Management Policy.

7. Herefordshire Council delegates responsibility for monitoring that treasury management activity is in accordance with the approved policies, strategies and practices to Cabinet.

8. Herefordshire Council delegates responsibility for the development and maintenance of suitable Treasury Management Practices to the County Treasurer.

9. Herefordshire Council delegates responsibility for the administration of treasury management decisions to the County Treasurer who will act in accordance with the approved Treasury Management Policy Statement, Treasury Management Strategy and Treasury Management Practices. If the County Treasurer is a member of CIPFA, he/she shall also comply with CIPFA's Standard of Professional Practice on Treasury Management.

10. Herefordshire Council will receive reports from the County Treasurer on its treasury management policies, strategy, practices and activities, including, as a minimum, an annual strategy in advance of the year and an annual report after its close, in the form prescribed in the Council's Treasury Management Practices.