HEREFORDSHIRE COUNCIL

APPENDIX 3

HEREFORDSHIRE COUNCIL

PRUDENTIAL INDICATORS 2006/07

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 minimum level of Prudential Borrowing of £5,843,000 allocated for 2006/07, and £5,000,000 for each year 2007/08 and 2008/09.

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.

Certain specific allocations of Government funding are not expected until March or April 2006. These include Strategic Housing funding and potential funding for the Rotherwas Relief Road. Such allocations of funding will be added to the Capital Programme and reported as part of the Capital Monitoring process.

Capital Programme Area: -	Budget 2005/06 £'000	Estimated 2006/07 £'000	Estimated 2007/08 £'000	Estimated 2008/09 £'000
Children's Services	7,863	8,024	4,471	1,047
Environment General	11,144	12,556	12,265	10,997
Corporate and Customer Services	4,304	1,760	1,050	93
Resources	641	520	200	0
Adult and Community Services	10,505	13,574	5,575	4,820
Indicative Prudential Borrowing for allocation	0	0	17	4,300
	34,457	**36,434**	**23,578**	**21,257**
By funding				
Capital Receipts Reserve	2,639	6,903	4,429	5,567
Grants	11,456	6,835	1,503	0
SCE(R)	13,783	13,322	12,646	10,690
Revenue Contribution	879	0	0	0
Agreed Prudential Borrowing	5,700	9,374	4,983	700
Indicative Prudential Borrowing for allocation	0	0	17	4,300
	34,457	**36,434**	**23,578**	**21,257**

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) and no longer includes the Education element now funded by the Dedicated Schools Grant. The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs.

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Net Revenue Stream	110,926	118,285	122,998	129,610
Capital Financing Costs	8,364	8,875	10,599	11,322
Ratio of financing costs to net revenue stream	7.54%	7.50%	8.62%	8.74%

4. CAPITAL FINANCING REQUIREMENT

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

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Capital Financing Requirement (as at 31/3)	110,811	125,807	136,252	146,364

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.

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Borrowing	133,000	147,000	170,000	185,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**136,000**	**150,000**	**173,000**	**188,000**

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

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

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Borrowing	94,500	108,500	125,500	136,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	**96,000**	**110,000**	**127,000**	**138,000**

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

This indicator represents the increases in Council Tax resulting from unsupported Prudential Borrowing decisions taken by Council.

	2006/07	2007/08	2008/09
	£ p	**£ p**	**£ p**
Increase in council tax (Band D, per annum) based on Prudential Borrowing of £5,843,000 allocated for 2006/07 and £5,000,000 per year for subsequent years.	3.86	10.54	16.74

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.

	2005/06	2006/07	2007/08	2008/09
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 2006/07	**Upper Limit**	**Lower Limit**
Under 12 Months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	100%	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	**2005/06**	**2006/07**	**2007/08**	**2008/09**
	£'000	**£'000**	**£'000**	**£'000**
(per maturity date)	10,000	10,000	10,000	10,000

APPENDIX 4

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2006/07

1. INTRODUCTION

1.1 The Financial Policy Team is responsible, under the direction of the Director of Resources for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for borrowing and Annual Investment Strategy for 2006/07 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 2006/07;
- prudential indicators for 2006/07 – 2008/09;
- 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; and
- end of year report.

2. CURRENT TREASURY PORTFOLIO POSITION

2.1 The Council's treasury portfolio position as at 31 January 2006 is as follows: -

DEBT POSITION	**Principal (£)**	**Borrowing Rate (%)**
Public Works Loan Board	70,464,193	4.72
Market Debt *	12,000,000	2.23
Total Debt	**82,464,193**	

Estimated Borrowing Requirement 2006/07 – supported borrowing approvals of approximately £13,151,411, plus the potential for an additional £8,687,000 unsupported borrowing under the Prudential Code (which includes slippage from previous year). In addition refinancing of maturing debt of £443,384 in the year will be required, plus there is the potential for the market debt of £12,000,000 to be recalled and require refinancing.

* The Market debt refers to two LOBO (Lender Option Borrower Option) loans that were taken out at low interest rates (2.85% and 1.60% respectively) fixed for 2 years with the remaining 48 years of the loans at an interest rate of 4.50%

INVESTMENT POSITION	Principal (£)	Rate of Return (%)
Internally managed funds	36,338,035	4.60
Externally managed funds	7,432,674	4.80
Total Investments	**43,770,709**	

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

3. TREASURY LIMITS FOR 2006/07

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 around £5,000,000 per year and the effect of this is set out in the Prudential Indicators below.

4. PRUDENTIAL INDICATORS FOR 2006/07 – 2008/09

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

PRUDENTIAL INDICATOR	2005/06	2006/07	2007/08	2008/09
(1). Budget Setting Indicators				
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	34,457	36,434	23,578	21,257
Ratio of financing costs to net revenue stream				
Net Revenue Stream	110,926	118,285	122,998	129,610
Financing Costs	8,364	8,875	10,599	11,322
Ratio of financing costs to net revenue stream	7.54%	7.50%	8.62%	8.74%

	2005/06	2006/07	2007/08	2008/09
Incremental effect of Prudential Borrowing	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (Band D, per annum) (Prudential borrowing of 2006/07 = £5.843m, 2007/08 = £5.0m, 2008/09 = £5.0m)	£0.00	3.86	10.54	16.74
Capital Financing Requirement (as at 31/3)	**£'000**	**£'000**	**£'000**	**£'000**
Total	110,811	125,807	136,252	146,364

PRUDENTIAL INDICATOR	**2005/06**	**2006/07**	**2007/08**	**2008/09**
(2). Treasury Management Prudential Indicators				
Authorised Limit for External Debt	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	133,000	147,000	170,000	185,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**136,000**	**150,000**	**173,000**	**188,000**
Operational Boundary	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	94,500	108,500	125,500	136,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	**96,000**	**110,000**	**127,000**	**138,000**
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 2006/07	**Upper Limit**	**Lower Limit**
Under 12 Months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	100%	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	**2005/06 £'000**	**2006/07 £'000**	**2007/08 £'000**	**2008/09 £'000**
	10,000	10,000	10,000	10,000

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

5.1 The Council currently has 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

- Gross Domestic Product (GDP) growth weakened from 3.2% in 2004 to 1.7% in 2005 under the impact of monetary and fiscal tightening and the old price shock depressing household spending. Growth expected to recover weakly to about 2.0% in 2006 and then return to the long-term trend rate of 2.5% in 2007.
- House price inflation has fallen to low levels and may now stabilise.
- Inflation forecast to stay around target despite hike in oil prices. MPC on alert for pipeline cost pressures, primarily from oil price increases, feeding through into output prices and then into retail prices.
- Public sector deficit to decline steadily over next few years as the Government cuts back on the rate of growth of its expenditure.

International

- Boom in world commodity prices driven by strong growth in China and India; potential for further increases in prices but supply side increases and improvements in technology are likely to reduce prices in the medium term
- Inability of oil producers to spend their huge cash surpluses and reluctance of Asian economies to run current account deficits will suppress world demand and dampen world growth
- US – Fed nearing the end of its phase of measured rate raising. Fed rate may now peak at 4.5%.
- US GDP growth expected to weaken from 4.2% 2004 to 3.5% 2005 and 3.0% 2006
- The European Central Bank (ECB) had held repo rate at 2.00% since June 2003; increase in December to 2.25% and further increases expected as the economic outlook has improved.
- Eurozone GDP growth expected to rise weakly and to continue to under perform the UK and US economies.

Interest rate forecast

Base Rate:
Sector's current interest rate view is that the repo (base) rate will: -

- remain on hold at 4.5% until the end of Q1 2006
- fall to 4% by the end of Q4 2006
- edge up by 0.25% in Q1, Q2 and Q3 of 2007 to end the year at 4.75%

The risk to this forecast is to the downside in as much as the cuts in rates could occur earlier than our forecast suggests, although this will not necessarily affect the timing of the first upward move in Q1 2007.

Long Term Rates:

- the new 50-year PWLB rate will remain flat at 4% until Q4 2006 when it will rise to 4.25% with a further increase to 4.5% in Q2 2007. As the Sector forecast is in 0.25% segments there is obviously scope for the rate to move away slightly from 4.0% without affecting this overall forecast.
- Similarly the 25-30 year PWLB rate will remain flat at 4.25% until Q4 2006 when it will rise to 4.50% with a further increase to 4.75% in Q2 2007.
- The 10-year PWLB rate will stay at 4.25% in the first two quarters of 2006 but will then rise to reach 4.50% in Q3 2006 and then 4.75% in Q1 2007.
- 5-year gilt yields will follow base rate down and trough by the end of Q3 2006 at 4.00%. Yields will then rise to 4.25% in Q4 2006, 4.5% in Q1 2007 and to 4.75% in Q2 2007 as the interest rate cycle turns up again.

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 2006)

%	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
Base Rate	4.50	4.25	4.25	4.00	4.25
10 Year PWLB	4.25	4.25	4.50	4.50	4.75
25 Year PWLB	4.25	4.25	4.25	4.50	4.50
50 Year PWLB	4.00	4.00	4.00	4.25	4.25

Table 2 Summary of Independent Forecasts of Base Rate

(This table represents the views of independent forecasters views of base rate as at December 2005)

%	2006 Year end	2007 average	2008 average	2009 average
Average	4.29	4.39	4.54	4.60
Highest	5.00	5.40	5.90	6.20
Lowest	3.50	3.75	3.75	3.75

6. BORROWING STRATEGY

6.1 Based upon the prospects for interest rates outlined above, the forecast indicates that the borrowing strategy for 2006/07 should be to set to take long dated borrowings in the second and third quarters of the calendar year before PWLB rates rise. This applies particularly to the 50-year area where we forecast the rate to remain at 4.00% until Q3 2006. Variable rate borrowing and borrowing in the five-year area will also be attractive in the second and third quarter of the calendar year while the repo rate is on a falling trend.

6.2 These interest rate expectations provide a variety of options:

- with 50-year PWLB rates at 4.00% borrowing should be made in this area of the market in Q2 and Q3 of the calendar year. This rate will be lower than the forecast rates for shorter maturities in the 5-year and 10-year area. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.00%. However, to maintain a suitable maturity profile, the Council should consider borrowing short-term fixed and variable borrowing as well and this should be undertaken in the second and third quarters of the financial year as the repo rate declines.
- The Council may consider borrowing longer-term fixed funding if it is believed that there is a risk that the average variable rate over the budget forecast period is going to be higher than the longer term fixed rate. However, over the longer term there may be periods where short-term/variable rates are lower than longer term fixed rates.
- 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 Director of Resources will carefully monitor the interest rates available and take advice from the Treasury Management Consultants over the timing of any new borrowing.

6.3 Against this background caution will be adopted with the 2006/07 treasury operations. The Director of Resources 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 4.25%. With variable rate borrowing rates likely to fall significantly during 2006/07, it will be best to avoid restructuring into fixed borrowing for short periods (e.g. one year). Long-term fixed rates, 25-30 years, are not expected to rise back above 4.75% during 2006/07. Consequently long-term debt rates at or above 4.75% would warrant reviewing the potential for undertaking debt restructuring.

7.2 In addition, the Council will actively give consideration during the year to taking advantage of small movements in PWLB rates to reduce the cost of existing debt in the portfolio by reborrowing at lower rates without making significant changes to the type of debt (fixed / variable) or maturity periods.

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

- In order to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

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.

11. INVESTMENT STRATEGY

11.1 The Director of Resources manages 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 Sector is forecasting base rates to be on a falling trend from 4.50% to reach 4.00% in Q4 2006 but to rise again to end Q1 2007 at 4.25%. The Council will therefore seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio. Some investments should be aimed to mature during Q1 2007 when the interest rate cycle turns up and the market yield curve should have turned positive. This will enable the Council to lock into higher yielding investments with its maturing deposits.

11.3 In relation to the Council's internally managed funds, the Director of Resources 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 £7,432,674 (as at 31st January 2006) 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 2006/07.

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 *(i.e. deposits with local authorities as defined under Section 23 of the 2003 Act)*	High security although LAs not credit rated.	In-house and by external fund manager
Term deposits with credit-rated deposit takers *(i.e. deposits with 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 *(i.e. a certificate issued for deposits made with a bank or building society, who agree to pay a fixed rate of interest for the specified period of time and repay the principal at maturity)* 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 *(a fixed interest security issued or secured by the British Government)* *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 *(a transaction where gilts are bought with a commitment (as part of the same transaction) to sell equivalent gilts on a specified date, or at call, at a specified price)*	Govt-backed	External fund manager only subject to the guidelines and parameters agreed with them
Money Market Funds *(a AAA credit rated collective investment scheme such as a mutual fund or a unit trust, as defined in Statutory Instrument 2004 No. 534, that invests exclusively in money market securities)*	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. a deal negotiated before the deposit is paid, with the negotiated deal period plus period of deposit < 1 year)*	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).

ANNEX A

Investment	Security / Credit Rating	Circumstance of use
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
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

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 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 Practice Statements to the Director of Resources.

9. Herefordshire Council delegates responsibility for the administration of treasury management decisions to the Director of Resources who will act in accordance with the approved Treasury Management Policy Statement, Treasury Management Strategy and Treasury Management Practice Statements. If the Director of Resources 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 Director of Resources 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 Practice Statements.