

DORSET POLICE AUTHORITY – 12 FEBRUARY 2010

TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS FOR 2010/11

REPORT OF THE TREASURER TO THE POLICE AUTHORITY

PURPOSE OF REPORT

The CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and funding. The publication of indicators and monitoring requirements are required by the Code. In addition there are separate requirements under the CIPFA Treasury Management Code to publish a Treasury Management Strategy. This report sets out the issues for consideration and seeks agreement to the required indicators and strategies.

1. BACKGROUND

- 1.1 The Local Government Act 2003 requires the authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the authority's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2012/13.
- 1.2 Within this overall prudential framework there is an impact on the authority's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy is included as part of this report to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.
- 1.3 This report outlines the authority's prudential indicators for 2010/11 – 2012/13 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
 - a. The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;
 - b. The authority's Minimum Revenue Provision (MRP) Policy, which sets out how the Authority will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);

- c. The Treasury Management Strategy Statement which sets out how the authority's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key Prudential Indicator is the Authorised Limit, the maximum amount of debt the authority could afford in the short term, but which would not be sustainable in the longer term. This Affordable Borrowing Limit is required by Section 3 of the Local Government Act 2003, and this is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
 - d. The investment strategy which sets out the authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance.
- 1.4 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The Department for Communities and Local Government (CLG) is currently consulting on changes to the Investment Guidance. The revised guidance arising from these Codes has been incorporated within these reports, with the CLG proposals being incorporated where these do not conflict with current Guidance. If necessary the Investment Strategy contained in this report will be revised if any elements of the final CLG Investment Guidance have not already been covered.
- 1.5 The main changes initiated in these revisions increase the Members' responsibility in this area. This would require greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 1.6 One element of the revised CIPFA Treasury Management Code of Practice is that the clauses to be adopted by the authority be amended. The key change is that a responsible body, the Police Authority, be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This revision is simply formalising the arrangements that are already in place, and is shown below for approval. The full list of clauses to be adopted is:
1. The Authority will create and maintain, as the cornerstones for effective treasury management:
 - A Treasury Management Policy Statement (TMPs), stating the policies, objectives and approach to risk management of its treasury management activities;
 - Suitable Treasury Management Practices, 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.
 2. The Authority will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, regular reports on activities, and an annual report after the accounts have been closed, in the form prescribed in its TMPs.
 3. The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit, Resources, and Continuous Improvement Committee (ARCIC), and for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the authority's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. ARCIC is responsible for ensuring effective scrutiny of the treasury management strategy and policy.
- 1.7 The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2. PRUDENTIAL INDICATORS (PrIs)

- 2.1 The starting point for the PrIs is the authority's Capital Programme. The figures include all existing known commitments and the effect of the revenue and capital proposals, included in the reports elsewhere on this agenda. Assumptions about future Government Grant and Council Tax levels are consistent with the Medium Term Financial Plan. The four PrIs relating to Treasury Management are shown in paragraph 13.3.
- 2.2 Provisional control totals for capital expenditure for the three years 2010/11 to 2012/13 are set out in the Police Authority Budget report elsewhere on this agenda.
- 2.3 The actual capital expenditure in 2008/09 and the estimates of capital expenditure to be incurred in the current and future years that are recommended for approval are set out in detail in the Capital Budget 2010/11 report elsewhere on this agenda. The figures quoted in this report are therefore subject to amendment depending on decisions made by the authority when considering that report.

PrI 1 – Capital Expenditure

- 2.4 The first requirement of the Code is that the Authority must make reasonable estimates of the total capital expenditure it intends to incur during the forthcoming and at least the following two financial years. The PrI below shows the actual and anticipated level of capital expenditure for the five years 2008/09 to 2012/13 and is the starting point for the rest of the PrIs. The summarised position is set out below:

Gross Capital Expenditure				
2008/09	2009/10	2010/11	2011/12	2012/13
£M	£M	£M	£M	£M
Actual	Estimate	Estimate	Estimate	Estimate
6,132	13,744	6,515	2,228	2,023

- 2.5 The figures only include expenditure that can be financed from sources that are reasonably certain at this point in time. Cautious assumptions have been made about the likely level of government funding in future years, which may therefore require revisions.
- 2.6 The capital expenditure figures shown in PrI 1 assume a certain level of financing from borrowing for each year. New borrowing, together with existing borrowing, has to be affordable and sustainable – this is the main plank of the Prudential Code and is the key to PrIs 2 to 7 which follow. Proposals on the level of borrowing for capital purposes are shown at paragraph 10.2 of this report and continued in the Budget 2010/11 report elsewhere on this agenda.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

- 2.7 PrI 2 expresses the net costs of financing as a percentage of the funding receivable from the Government and council tax payers, expressed as a ratio. The net cost of

financing includes interest and principal repayments, netted off by interest receivable in respect of cash investments.

- 2.8 The general trend is as expected because new debt will rise faster than old debt is repaid. In itself, this rise was not a concern in affordability terms historically, as new borrowing taken out was largely supported by Revenue Support Grant. Previously it was just unsupported borrowing that would affect Council Tax. With the introduction of the new formula grant system it is no longer possible to demonstrate that Government supported borrowing costs are covered £ for £ by Government grant. Accordingly the ratio has been amended and all borrowing will now need to be considered. This is discussed in more detail in the next section on Prl 3.

Ratio of financing costs to net revenue stream				
2008/09	2009/10	2010/11	2011/12	2012/13
Actual	Estimate	Estimate	Estimate	Estimate
-1.14%	-0.14%	-0.20%	-0.26%	-0.65%

(The estimates of financing costs include current commitments and the proposals in the budget report. The increasing ratio reflects the effect of the Authority's policy to borrow to finance a proportion of the capital programme.)

Prl 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

- 2.9 This indicator estimates the extra cost of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Authority.
- 2.10 Where new unsupported borrowing is authorised there will be a potential resulting increase in the Council Tax, unless other balancing budget reductions are made elsewhere. As mentioned in paragraph 2.8, it is no longer possible to demonstrate borrowing supported by the Government is fully funded through the Revenue Support Grant mechanism.
- 2.11 The figures below represent the extra estimated cost in each year of that borrowing if it all fell on the council tax.

	Increase in Band D Council Tax		
	2010/11	2011/12	2012/13
	£	£	£
Cost of capital programme on Band D council tax (an element of this is supported through grant).	0.62	0.12	0.07

Prl 4 – Capital Financing Requirement and the Minimum Revenue Provision Statement (MRP)

- 2.12 The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. At present and in accordance with best professional practice, the Police Authority does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy

and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

- 2.13 The Police Authority has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction is made between revenue cash and capital cash.
- 2.14 External borrowing arises from long term financing of capital spend and short term cash management if required. In contrast, the capital financing requirement (Pr1 4) reflects the authority's underlying need to borrow for a capital purpose. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

- 2.15 Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2009 are:

Capital financing requirement				
31/03/09	31/03/10	31/03/11	31/03/12	31/03/13
£000	£000	£000	£000	£000
Actual	Estimate	Estimate	Estimate	Estimate
0	0	2,186	2,818	3,461

- 2.16 I confirm that the Authority will have no difficulty meeting the requirement in 2.14 above.
- 2.17 The Department for Communities and Local Government, (CLG), made changes to the Capital Finance System two years ago. The main change relates to how MRP is calculated and that before the start of each financial year the Police Authority should prepare a statement of its policy on making MRP in respect of that financial year.
- 2.18 The amended regulations require the Police Authority to calculate for the current financial year an amount of MRP which it considers to be prudent. The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits. The statement should indicate which of the options for MRP are to be followed.
- 2.19 The Authority is required to provide for an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.
- 2.20 The CLG Regulations require the Police Authority to approve an MRP Statement in advance of each year. Whilst the Regulations revoke previous MRP requirements, authorities are allowed to continue historical accounting practice. Members are asked to approve the following policy, based on the Regulations.
- 2.21 The Authority is recommended to approve the following MRP Statement:

- 2.22 For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be based, as now, on the CFR.
- 2.23 From 1 April 2008 for all unsupported borrowing the MRP policy will be based on the Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Directive).

PrI 5 – Actual External Debt at 31 March 2009

- 2.24 This PrI shows the amount of gross external debt outstanding in the period prior to the budget years under consideration and other long term liabilities e.g. on certain property leases. It should be noted that as these actual figures are taken at a point in time, they are not comparable with the Operational Boundary and Authorised Limit that follow, which are control limits.

	2008/09 £000
Borrowing	0
Other long term liabilities	2,283
Total	2,283

Note: Other long term liabilities relate to the system of capital financing and Home Office grant aid in use in 1990. There is a commitment to repay this sum to Dorset County Council over the life of the relevant assets that were built or purchased before 1990.

PrI 6 – Operational Boundary for External Debt

- 2.25 The Operational Boundary and the Authorised Limit (PrI 7) are at the core of the Prudential Code. These reflect the expectation or limits that authorities impose upon themselves in relation to external borrowing (gross of investments), since the Government constraints on local authority borrowing through credit approvals were removed.
- 2.26 The Operational Boundary for each year must be split between that relating to external borrowing, and other long term liabilities. The Operational Boundary is the key management tool for in-year monitoring of the Authority's expected capital and cashflow borrowing position. Monitoring arrangements for the PrIs are dealt with in section 3 of the report.
- 2.27 The proposed operational boundaries for external debt set out below are based on the most likely, prudent, but not worst case scenario, without the full additional headroom included within the authorised limit (see PrI 7 over), to allow for example for unusual cash movements.

	Operational boundary for external debt			
	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
Borrowing	5,000	7,100	7,400	7,600
Other long term liabilities	2,400	2,200	2,100	2,000
Total	7,400	9,300	9,500	9,600

- 2.28 The Authority is also asked to delegate authority to me, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities. Any such changes will be reported to the Authority at its next meeting following the change.

Prl 7 – Authorised Limit for External Debt

- 2.29 The Authorised Limit has been calculated by using the Operational Boundary (see Prl 6 above), plus a margin to allow for unusual and unpredicted cash movements. By its very nature, this margin is difficult to predict and it will be necessary to keep it under review for future years. The Authorised Limit may not be affordable or sustainable in the long term. It is a statutory limit and any breach will be reported to the Police Authority. An allowance has been added to the operational boundary to provide for the possibility of extra borrowing becoming available during the year as the result of the Government supporting further schemes, as well as providing some headroom if the projection of cash flow borrowing were to change.
- 2.30 In respect of its external debt, it is recommended that the Police Authority approves the following authorised limits for its total external debt for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases.
- 2.31 The proposed authorised limits are set out below. Again the Authority is asked to delegate authority to me, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Authority at its next meeting following the change.

	Authorised limit for external debt			
	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
Borrowing	13,000	15,100	15,400	15,600
Other long term liabilities	2,500	2,300	2,200	2,100
Total	15,500	17,400	17,600	17,700

Prl 8 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

- 2.32 The Police Authority adopted the latest update of the CIPFA Code of Practice for Treasury Management in the Public Services during 2002, and as revised in 2009. All recommendations in this report are consistent with the Code.

3. MONITORING AND REPORTING OF PRUDENTIAL INDICATORS

- 3.1 My staff will be monitoring progress against the PRLs throughout the year and will be reporting to me on a quarterly basis, particularly the Authorised Limit, which will need to be kept under regular review. The Police Authority will be kept informed of any issues that arise, including serious potential or actual breaches, as these could be ultra-vires. The Police Authority will also be kept up to date in the quarterly Treasury Management Report. Accounting Changes in the 2009 SORP and requirements of IFRS will change the way we account for PFI schemes (now on Balance Sheet), this may affect the Prudential Indicators. Any subsequent changes to the indicators will require the approval of the Police Authority.
- 3.2 The Police Authority (ARCIC) now receive reports regularly, detailing the latest investment portfolio. The Authority also receives updates on strategy, and changes to credit ratings for market counterparties.

4. RISK ASSESSMENT

- 4.1 The primary risks to which the Police Authority is exposed in respect of its treasury management activities are adverse movements in interest rates and the credit risk of its investment counterparties. Either may jeopardise the Authority's ability to maintain its financing strategy over the longer term.
- 4.2 The net interest costs of the Authority are not significant in relation to its overall revenue budget. Even the recent significant reduction in the level of interest rates is unlikely to result in an unmanageable burden on the budget position of the Police Authority.
- 4.3 Treasury Management risk is minimised in the following ways:
- diversification of lending by setting criteria and limits for investment categories and individual borrowers. Risk is controlled by the formulation of suitable criteria for assessing and monitoring the credit risk of borrowers and the construction of the lending list comprising time, type, sector and specific counterparty limits. This is covered in more detail in the following section.
 - balancing cash flow needs, as determined by the forecast, with the outlook for interest rates, whilst ensuring enough cover for emergencies
 - use of money market funds and longer term lending to enhance diversification.
- 4.4 In addition, the CIPFA Code requires the policy to show who is responsible for which decision, the limits on the delegation and reporting requirements. This has been in place for some years and is reproduced at Appendix 2.
- 4.5 The third way is by the operation of the Authority's Treasury Management Practices document, which sets out in detail the systems and processes (including internal checks) that have been introduced to reduce the risk of losses due to fraud, negligence and error.

5. TREASURY MANAGEMENT STRATEGY FOR 2010-11

- 5.1 The treasury management service is an important part of the overall financial management of the authority's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the authority's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets its balanced budget requirement under the Local Government Finance Act 1992.
- 5.2 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Authority adopted the Code of Practice on Treasury Management in 2002, and will adopt the revised Code.
- 5.3 As a result of adopting the Code the Authority also agreed to create and maintain a Treasury Management Policy statement (TMPs) which states the policies and objectives of the Police Authority's Treasury Management activities. The revised Code of Practice requires that treasury management practices are suitably scrutinised, and the TMPs has been amended and this is shown in paragraph 1.6 for approval.
- 5.4 It is a requirement for an annual strategy to be reported to the Police Authority outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report. Since October 2008, ARCIC has been receiving regular reports, which exceed this formal requirement.
- 5.5 This strategy covers:
- An update on Icelandic Banks
 - Day to day cash management activity
 - Outlook for Interest Rates
 - Investment Strategy
 - Borrowing Strategy
 - Economic Investment Considerations
 - Sensitivity to Interest Rate Movements
 - Treasury Management Limits on Activity
 - Performance Indicators
 - Treasury Management Advisers
 - Member and Officer Training

6. ICELANDIC BANKS

- 6.1 Members will be aware that Dorset Police Authority is one of over 120 local authorities who have funds on deposit with Icelandic banks. The total sum at risk nationally has been assessed at approaching £1 Billion.

- 6.2 Between June and September 2008, Dorset Police Authority made three temporary loans to two of these Icelandic banks, Landsbanki and Heritable (a UK subsidiary) totalling £7m. These are fixed term loans at interest rates of between 5.72% and 6.22%, repayable at various times between October and December 2008.
- 6.3 The Police Authority only lends to banks rated 'A' or above on a rating scale of AAA to CCC and spreads the risk over a number of banks (at that time 24) in accordance with limits set by the Treasury Management Policy reviewed annually. I am advised of any changes in the ratings by our treasury management advisers, Butlers. At the time these loans were made, both banks met the criteria set by our Treasury Management Policy. The current position is shown below:

Heritable

- 6.4 A claim was registered at an early stage with the administrators, Ernst & Young for the following amount, being the principal outstanding, and interest accrued to 7 October 2008:

Dorset Police Authority: £2,035,105

- 6.6 On 30 July 2009 the first repayment was received from Ernst & Young which represented 16.13 pence in the pound. The amount received was:

Dorset Police Authority: £328,182

- 6.7 On 17 December 2009, a second repayment was received which represented a 12.66% dividend. The amount received was:

Dorset Police Authority: £257,633

- 6.8 It is likely that around 70 pence in the pound will be returned by the end of 2010 and it is anticipated that the process will be completed by the end of 2012.

Landsbanki

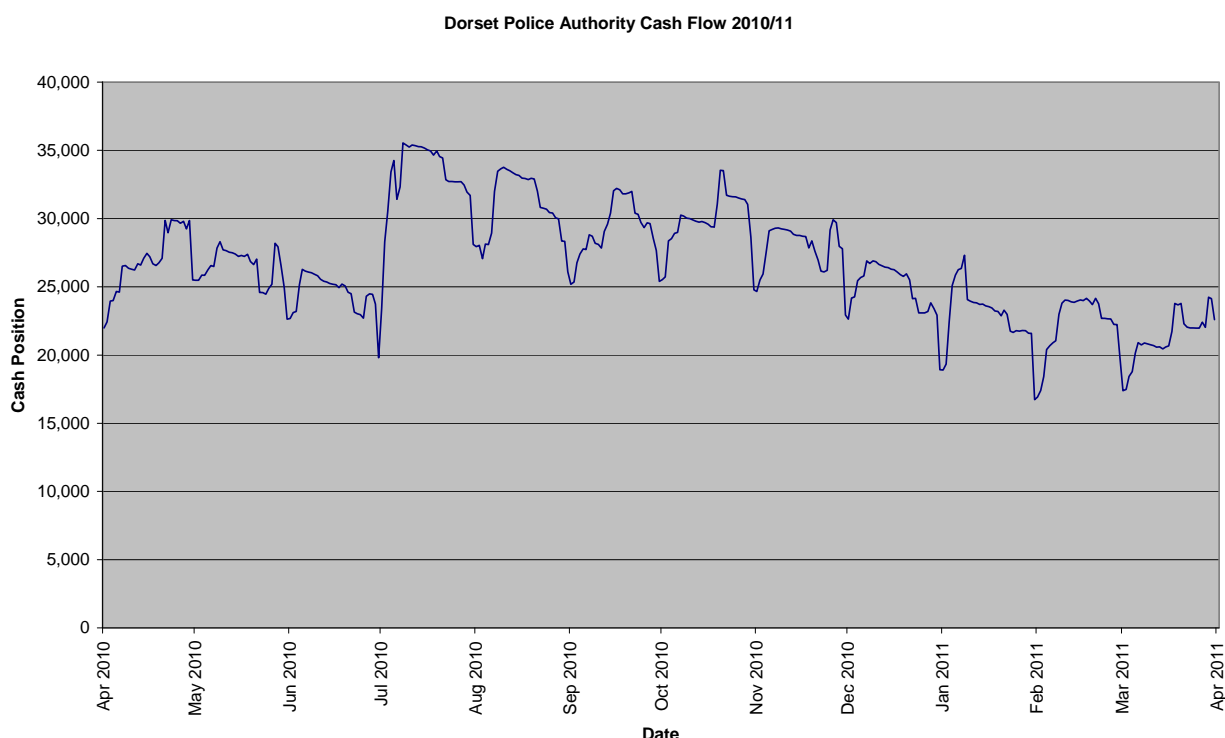
- 6.9 Dorset Police Authority also has deposits frozen with Landsbanki, and members will be aware that this process has been progressing significantly more slowly than Heritable as it is being conducted under Icelandic law. There has been a significant amount of work on behalf of local authorities by Bevan Brittan, Kent County Council and the London Borough of Barnet. The authorities are members of the "Resolution Committee" that has been placed in charge of running Landsbanki by the Icelandic Financial Services Authority (the "FME").
- 6.10 Depositors make up a large proportion of the creditors of Landsbanki, and as such the Local Authority representatives on the resolution Committee have been able to exert significant influence. This influence has been increased by collaboration with the HM Treasury, and the Dutch Central and Local Governments, who in general all have the same interests.
- 6.11 Following the submission of formal claims, the Landsbanki Winding-up Board (WUB) has confirmed it has accepted all Local Authority claims as priority claims, subject to some modifications around the penalty interest applicable to each claim. The Local Government Association (LGA) is working to raise objections to these claims. It is understood that other non-priority creditors of Landsbanki, specifically bond holders and international banks, have filed objections to every decision by the WUB to accept

a claim as having priority status. The deadline for written objections is 10 January 2010 and the LGA's advisers are liaising with the Landsbanki WUB to clarify whether comments can be made on objections filed by others. The LGA intends to explore every opportunity to uphold depositor preference and defend Local Authorities interest against challenges from other creditors. Legal action over the issue is likely to begin in Spring 2010.

- 6.12 On 12 October 2009, it was announced that agreement had been reached on the terms of the deal that will compensate creditors. Current valuations suggest that recoveries will be equal to or exceed the previous estimate of 83 pence in the pound.

7. DAY TO DAY CASH MANAGEMENT ACTIVITY

- 7.1 It is anticipated that the Authority's cash balances will fluctuate between £16.7 Million and £35.5 Million over the year as set out in the chart below.



- 7.2 This cash flow forecast is based on historic trends and takes account of the long term debt management strategies assuming external borrowing is used. The budget for interest earnings is based on the cash flow as set out above (average balance £26.7 Million) with an average interest rate of 1.00%.

8. OUTLOOK FOR INTEREST RATES

- 8.1 The Authority's Treasury Management Adviser, Butlers, has provided a detailed report on the current outlook for interest rates for the next three years. This is summarised in the following paragraphs.

8.2 Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008-09	3.9	5.0	5.3	4.2	4.8	4.5
2009-10	0.5	0.8	1.4	3.2	4.4	4.6
2010-11	1.0	1.5	2.6	4.0	5.0	5.2
2011-12	2.0	2.5	3.3	4.3	5.3	5.3
2012-13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

- 8.3 Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantitative Easing [QE]), could trigger a dip back to negative growth and a W-shaped GDP path.
- 8.4 Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.
- 8.5 The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.
- 8.6 The Monetary Policy Committee (MPC) will continue to promote easy credit conditions through QE. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.
- 8.7 With inflation set to remain subdued in the next few years, the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity prices begin to rise again) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.
- 8.8 Longer term rates are expected to be more volatile. The current 'softness' of gilt yields & PWLB rates may continue for a while yet, given that these are being driven by a benign international backdrop and the effects of QE. Nevertheless this process will come to an end before the close of the financial year.
- 8.9 This is likely to herald a return to rising yields for a number of reasons:
- Net gilt issuance will rise sharply;
 - This will be increased by the extent to which the BoE attempts to claw back funds injected to the economy via the QE programme;
 - Investors will be looking to place more of their funds in alternative instruments as their risk appetite increases, demand for gilts will weaken as a consequence;

- A decision to leave QE in place will generate inflation concerns and pressurise long yields higher.

9. INVESTMENT STRATEGY 2010/11 TO 2012/13

- 9.1 Surplus funds are lent on a daily basis using the London Money Market, call accounts, pooled money funds and by making deposits with the Police Authority's bank. Longer term loans can also be made, however, there is a balance to be achieved between ensuring availability of cash to pay the bills and taking advantage of the different interest rates for loans made for various periods. For example longer maturities may, in some situations, pay a better rate but flexibility to meet 'surprises' on cash flow forecasts is reduced. In the current climate there is also a higher risk of counterparty default. In practice there will be a range of investments, but with a current bias heavily towards shorter term deposits.
- 9.2 Risk of default by an individual borrower is minimised by placing limits on the amount to be lent. These limits use, where appropriate, credit ratings from Fitch, Standard and Poors, and Moodys Credit Rating Agencies. All banks and building societies used by Dorset Police Authority will have a long-term rating of at least A and a minimum short term rating of F1. In order to increase prudence in this area, this year additional criteria of a minimum Individual rating of C and a minimum Support rating of 3 are to be introduced. Long-term ratings vary from AAA (the highest) down to D the lowest. Short-term ratings vary from F1+ (the highest) down to D. Individual ratings vary from A (the highest) down to E and estimate how likely the bank is to need assistance from third parties, and Support ratings vary from 1 (the highest) down to 5 and estimate the likelihood that such support would be received by the bank should it become necessary. Local authorities are not generally rated. The limits to be used are set out in paragraph 9.11 below.
- 9.3 In addition, the Police Authority may use banks whose ratings fall below the criteria specified, where the criteria in paragraph 9.11 are met.
- 9.4 The primary objectives of the Authority's investment strategy are firstly safeguarding the re-payment of the principal and interest of its investments on time and secondly, ensuring adequate liquidity – the investment return being a third objective. Following the economic background above, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns the operational investment strategy tightens the controls already in place in the approved investment strategy. After these main principles, the Authority will ensure:
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.
 - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections explained in Appendix 1.
- 9.5 The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Police Authority for approval at least annually. This criteria is separate to that which chooses Specified

and Non-Specified investments as it provides an overall pool of counterparties considered to be high quality that the Authority may use rather than defining what its investments are.

- 9.6 The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.
- 9.7 Credit rating information is supplied by Butlers on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided almost immediately after they occur and this information is considered before dealing.

Security

- 9.8 Last year the credit rating requirements for potential counterparties were tightened, and the introduction of individual and support ratings described in paragraph 9.2 has tightened this further. Coupled with the significant number of institutions being downgraded in the last 18 months this has reduced the pool of counterparties available. All counterparties that meet the minimum criteria are limited to £3 Million.
- 9.9 One proposed change is to introduce a new higher limit for the four UK high street banks (HSBC, Barclays, Lloyds Group and RBS) of £6 Million each. HSBC and Barclays are still rated highly, and the UK government has significant stakes in RBS and Lloyds Group and as such all four banks should be considered "low risk".
- 9.10 The second change relates to money market funds. In recent times the focus on liquidity and security has come to the fore, and is reflected in previous paragraphs. Money Market Funds, with AAA rating, and instant access give both security and liquidity, and as such there is a limit for individual funds of £3 Million, and a limit for the maximum across all money market funds of £8 Million.
- 9.11 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

i. Sovereign Ratings

The Authority will only lend to counterparties in countries with the highest Sovereign Credit Rating of AAA. The maximum that can be deposited with banks in any one sovereign is £6 Million at any time. The exception to both rules is the United Kingdom.

ii. Counterparties with Good Credit Quality

Category	Minimum Credit Rating	Limit	Previous Limit
Any Local Authority	N/a	£5 Million	<i>£5 Million</i>
Banks & Building Societies	Short F1, Long A, Individual C, Support 3	£3 Million	<i>£3 Million for banks rated F1 Short, A Long or higher.</i>
Four Major UK Banks: Barclays, HSBC, Lloyds TSB, RBS	N/a	£6 Million	<i>New Category</i>
Money Market Funds	AAA	£3 Million (individual)	<i>£3 Million (individual)</i>
Money Market Funds	AAA	£8 Million (total)	<i>£8 Million (total)</i>
UK Government including gilts and the DMADF	N/a	Unlimited	

The Authority will lend to counterparties with the following counterparty ratings:

Where a counterparty is part of a larger group, it is appropriate to limit the Authority's overall exposure to the group. Individual counterparties within the group will have their own limit, but will be subject to an overall limit for the group. The limit for any one group will be £3 Million, except in the case of the four major UK banks where the limit would be £6 Million.

iii. Guaranteed Banks and Building Societies with Suitable Sovereign Support

In addition, the Authority will use banks and building societies whose ratings fall below the criteria specified above if all of the following conditions are met:

- wholesale deposits in the organisation are covered by a government guarantee;
- the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
- the Authority's investments with the organisation are limited to amounts and maturities within the terms of the stipulated guarantee, up to a maximum of £3 Million each.

iv. Eligible Institutions

In addition, the Authority will use banks and building societies whose individual and support ratings fall below the criteria specified above if the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008. These banks must have the necessary short and long term ratings F1 and A respectively or equivalent. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.

v. Authority's own banker

In addition, the Authority will use its own banker for transactional purposes, even if the bank falls below the above criteria, although in this case balances will be restricted to a maximum of £3 Million.

vi. Four Major UK Banks

In addition, the Authority may invest up to £6 Million with each of these four UK banks:

- Barclays
- HSBC
- Lloyds Group
- RBS

vii. Use of Additional Information other than Credit Ratings

Additional requirements under the Code of Practice now require the Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches / outlooks) will be applied to compare the relative security of differing investment counterparties.

Liquidity

9.12 In addition it is prudent to have rules for the balance of investment between short term and longer term deposits to maintain adequate liquidity. They are:

i. Fixed Term Investments

The amount of fixed term investments will be limited to the amount of the excess balances for that term less a margin of £2 Million.

ii. Notice Money

The amount of notice money (short term) will be a minimum of 10% of total investments, up to a maximum of 100%.

iii. Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Authority's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Minimum Long Term and Short Term Counterparty Rating (LCD Approach)	Money Limit	Time Limit
Any Local Authority	N/a	£5 Million	1 Year
Banks & Building Societies	A / F	£3 Million	1 Year
Major UK Banks (Barclays, HSBC, Lloyds TSB, RBS)	N/a	£6 Million	1 Year
Money Market Funds	AAA	£3 Million (individual) £8 Million (total)	Overnight
UK Government including gilts and the DMADF	N/a	Unlimited	6 Months
Guaranteed Organisations	A / F	£3 Million	In Accordance with Guarantee
Eligible Institutions	A / F	£3 Million	6 Months
Authority's Own Banker	N/a	£3 Million	Overnight

9.13 In the normal course of the Authority's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

9.14 A summary of the proposed criteria for investments is shown in Appendix 3.

10. BORROWING STRATEGY 2010/11 – 2012/13

10.1 Borrowing approvals were replaced in 2004/05 by Supported Capital Expenditure (Revenue), (SCE(R)). The allocation of SCE(R)s are issued by Government as part of the overall annual grant settlement and additional revenue grant is paid to the Authority to pay for the costs of borrowing. The Authority currently borrows from the Public Works Loan Board (PWLB) and from the money market.

10.2 The Authority has a number of potential sources of funding, and the options are discussed in the following paragraphs.

i. Public Works Loan Board (PWLB) Long Term Loans

The PWLB is a government agency that provides long term funding to local authorities. Loans are available for any period between one and fifty years, at fixed or variable rates on interest. Under the Prudential Code, the PWLB will allow the Police Authority to borrow sufficient funds to finance its capital programme. It is possible to convert PWLB loans from variable rate to fixed rate (and vice versa) during the life of any loan, although after recent changes the PWLB will now charge a premium for this. The advantage to the Authority of borrowing from the PWLB, is the beneficial rates offered, generally lower than equivalent loans available in the market.

ii. Long Term Borrowing from the Banking Sector

Long term loans are available from the banking sector. Interest rates traditionally have been higher than those offered by PWLB, and premature repayment terms are not so flexible, although as referred to above, the PWLB's recent change has made market loans more attractive. In recent years however, special types of loans (known as LOBO's) have been offered by some of the larger lenders. These loans generally are for total periods of between 40 and 70 years, and commence at lower than PWLB rates fixed for varying periods up to 10 years. The risks with these types of loan include the lender's option to increase the rate at the end of the initial period. Although the borrower can at that point break the agreement (if the lender wishes to make a change of rate) the borrower is left exposed to higher interest rates on re-financing. Alternatively, if at the end of the initial period rates have fallen, the lender will not wish to change the rate. In this case the borrower is locked in for a long period. However, current long term rates are historically very low and if the Police Authority is to be a long term borrower this is a good opportunity to do so at low cost. It has previously been agreed to limit any LOBO exposure to a maximum of 25% of borrowing outstanding. The Authority has not arranged any loans during this financial year to date.

iii. Internal Borrowing from Revenue Balances

The Authority has a positive cash flow on a month to month basis because of the time difference between receipt of the main sources of income (grants and precepts) and the costs of providing services, for example a two week time lag is equivalent to

around £1 Million. In addition cash balances arise monthly, and between years from the financing of the capital programme, the amounts held in reserves and any budget under-spending. These cash balances could be utilised to finance the capital programme, which would help reduce the amount of external borrowing required. The chart at 7.1 above demonstrates that the cash balances are sufficient to finance up to two years capital borrowing. The advantage of Internal Borrowing is that it could be cheaper to use in-hand balances when lending rates are lower than the Police Authority's borrowing costs. This option has been used in 2008-09 and 2009-10 and can be seen in the table below.

Taking a firm prediction in the movement of interest rates over the next 25 years or more and basing a borrowing strategy on it is a risky option and not one the Police Authority should take. The strategy should therefore include a mix of lender and term to provide a 'portfolio for all seasons' at a reasonable cost.

The schedule of borrowing and anticipated annual servicing costs is set out in the table below. These costs are provided for in the current budget strategy and of course become unavoidable commitments for the future. This table assumes that interest rates are fixed for the term of the loan.

Year of loan	Amount £M	Rate of Interest %	Average Loan Period in Years	Annual Cost £M	
2009/10 and earlier	0.000			0.000	Actual
2010/11	2.186	4.00	4	0.634	Estimate
2011/12	0.719	4.30	4	0.211	Estimate
2012/13	0.756	5.30	4	0.229	Estimate
Total	3.661			1.074	

- 10.3 The long-term borrowing policy has been developed in consultation with Butlers, and the current approach is to borrow:
- i. The requirement in several tranches throughout the year, so as to spread the interest rate risk. This is different from the previous method of borrowing the entire requirement at the end of the financial year.
 - ii. On a maturity (interest only) basis as rates are at historically low levels. This gives the benefit of a low rate on the whole amount borrowed for the entire period of the loan. Maturity loans also offer marginally lower rates than the previously used annuity loans (repayment of Principal and Interest).
 - iii. Borrow for a period that offers best value, instead of the previous policy of attempting to match the term of the loan with the expected life of the assets.
- 10.4 Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

10.5 The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns. This approach has been used in the last two years, as the table at 10.2 shows.

11. ECONOMIC INVESTMENT CONSIDERATIONS

11.1 Expectations on shorter-term interest rates, on which investment decisions are based, show the likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The Authority's investment decisions are based on comparisons between the rises priced into market rates against the Authority's and its adviser's own forecasts.

11.2 There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

11.3 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

11.4 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government, or the four main high street banks. The credit criteria have been amended to reflect these facilities.

11.5 Given the current difficulty in gaining value from investing beyond the short term, and the Authority's borrowing requirement, the option of using investment balances rather than borrowing are appealing during the current market circumstances.

12. SENSITIVITY TO INTEREST RATE MOVEMENTS

12.1 The Authority's accounts are required to disclose the impact of risks on the Authority's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£m	2010/11 Estimated + 1%	2010/11 Estimated - 1%
Revenue Budgets		
Interest on Borrowing	+36,600	-£36,600
Investment Income	+267,000	-£267,000

13. TREASURY MANAGEMENT LIMITS ON ACTIVITY

13.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

13.2 The Authority is asked to approve the limits:

£m	2010/11		2011/12		2012/13	
Interest rate Exposures						
	Upper		Upper		Upper	
Pr1 9 Limits on net fixed interest rates payments	£400,000		£400,000		£400,000	
Pr1 10 Limits on net variable interest rate payments	£100,000		£100,000		£100,000	
Pr1 11 Maturity Structure of fixed interest rate borrowing 2010/11						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 Months	0%	25%	0%	25%	0%	25%
12 Months to 2 Years	0%	40%	0%	40%	0%	40%
2 Years to 5 Years	0%	60%	0%	60%	0%	60%
5 Years to 10 Years	0%	80%	0%	80%	0%	80%
10 Years to 20 Years	0%	100%	0%	100%	0%	100%
20 Years to 30 Years	0%	100%	0%	100%	0%	100%
30 Years to 40 Years	0%	100%	0%	100%	0%	100%
40 Years and above	0%	100%	0%	100%	0%	100%
Maximum principal sums invested > 364 days						
Pr1 12 Maximum Total Principal sums invested > 364 days (see breakdown below)	£m		£m		£m	
	0		0		0	

14. PERFORMANCE INDICATORS

14.1 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators,

which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report.

15. TREASURY MANAGEMENT ADVISERS

15.1 The Authority uses Butlers as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

15.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Authority. This service is subject to regular review.

16. MEMBER AND OFFICER TRAINING

16.1 The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

16.2 Reports of the CLG and the Audit Commission have highlighted that members should have the appropriate knowledge and skills to scrutinise Treasury Management activity and therefore Members are encouraged to attend.

16.3 The Authority's treasury management team is made up of experienced officers who regularly attend national treasury management events and training courses and meet with Treasury Advisers, Butlers in order to stay up to date with latest developments in Treasury Management.

17. CONCLUSION

17.1 This report sets out the Treasury Management Strategy for 2010/11 and in particular shows the anticipated cash flow for the Authority and how in practice this is to be managed to optimise interest earnings whilst meeting daily cash needs. Cash balances are predicted to remain at a level sufficient to meet anticipated needs throughout the year.

17.2 An extensive risk analysis has been carried out on the Treasury Management operation supported by the Police Authority's Treasury Management Adviser, Butlers

and it is considered that a high level of risk avoidance has been established by the combination of revised policies and working practices in place. Particular attention is given to the quality of lenders used and the processes used on a day to day basis to avoid any losses due to fraud, negligence, and error.

- 17.3 Various options exist regarding the precise manner in which the capital programme is financed, and these are highlighted in paragraph 10. The Code of Practice provides that final decisions on the actual financing of capital expenditure, rests with me and I will do this after taking advice from Butlers. The Strategy provides for total new borrowing of £3.7 Million over the 3 year period at an additional revenue cost of £1.1 Million per annum.
- 17.4 As required by the Code, the report sets out the required PRLs and in accordance with the guidance any revisions required will be brought to the Police Authority for approval.

18. RECOMMENDATIONS

The Authority is recommended to:

- (i) approve the Prudential Indicators and limits for 2010/11 to 2012/13, approve the Treasury Management Strategy incorporating the Investment Strategy, and approve the Minimum Revenue Provision Statement;
- (ii) approve that the Treasurer determines the most appropriate means of financing the capital programme;
- (iii) approve the revision to the Standing Orders shown in paragraph 1.6. This revision nominates the Audit, Resources, and Continuous Improvement Committee (ARCIC) to ensure effective scrutiny of the treasury management strategy and policies.

PAUL KENT

Treasurer to the Police Authority

January 2010

APPENDIX 1

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12 March 2004, and this forms the structure of the Authority's policy below. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Dorset Police Authority adopted the Code during 2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is set out below.

Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement (the Investment Strategy).

Specified Investments

These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. A local authority.

3. An investment scheme that has been awarded a high credit rating by a credit rating agency.
4. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).
5. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Authority's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.
6. Supranational bonds of less than one year's duration.

For category 3 this covers a money market fund rated by Standard and Poor's, Moody's or Fitch rating agencies.

For category 4 this covers bodies with a minimum rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is set out in paragraph 5.19.

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). This would include investments greater than 1 year in duration. Due to the relatively low level of cash resources it is not proposed to make any investments in this category.

The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Butlers as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer, and if required new counterparties which meet the criteria will be added to the list.

Delegation

The Code requires the policy of delegation to show who is responsible for which decision, the limits on the delegation and reporting requirements.

The Code also requires the responsibilities of the Authority, and its officers to be set out. In summary they are as follows :-

Dorset Police Authority - approval of recommendations from the Audit, Resources and Continuous Improvement Committee and the borrowing limits. The approval of the Treasury Management Strategy statement, ensuring effective scrutiny of and from time to time reviewing the Treasury Management Strategy Statement, and the receipt of quarterly reports from the Treasurer to the Police Authority on Treasury Management activities and performance, and from time to time the review of the Treasury Management Strategy Statement.

Audit, Resources and Continuous Improvement Committee - the approval and review of the Treasury Policy statement, ensuring effective scrutiny of and from time to time reviewing the Treasury Management Strategy Statement, and the receipt of annual reports from the Treasurer to the Police Authority on treasury management activities.

The Treasurer to the Police Authority – the approval of draft policy statement, appointment of money brokers, regular monitoring of activities and reporting on these activities to the Committee.

Chief Constable - that the system is laid down and resourced, and that the Treasurer to the Police Authority makes the required regular reports to the Authority.

Assistant Chief Officer - monitor implementation of policy.

Treasury Management contractor - preparation of draft monitoring reports for the Treasurer to the Police Authority and the placement and approval of deals on a day to day basis in accordance with the approved policy.

Monitoring Officer – Chief Executive - ensuring compliance by the Treasurer to the Police Authority

Internal Audit - the policing of the arrangements.

In addition to these delegations there is in place a comprehensive system of checks undertaken by the Treasury Management contractor in accordance with the terms of the contract specified by the Authority.

Summary of Investment Criteria

Paragraph	Criteria	Minimum Rating				Maximum Investment and Exceptions
		Long	Short	Individual	Support	
Sovereign Limit for All Loans						
9.11 i	AAA Sovereign Rating	N/a	N/a	N/a	N/a	£6 Million with any one sovereign, Excluding the UK
Notice Money						
A minimum of 10% of total investments, up to a maximum of 100%						
9.11 v	Authority's own Banker	N/a	N/a	N/a	N/a	£3 Million
9.11 ii	Money Market Funds	AAA				£3 Million individual, £8 Million total
Fixed Term Investments						
Limited to the amount of excess balances for that term less a margin of £2 Million						
Up to 6 months						
9.11 ii	UK Government including gilts and DMADF					Unlimited
9.11 iv	Eligible Institutions , where: a) the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme announced on 13 October 2008	A	F1			£3 Million
Up to 364 Days						
9.11 ii	Any Local Authority					£5 Million
9.11 ii	Banks & Building Societies	A	F1	C	3	£3 Million Note that no more than £3 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 9.13 iii, iv, v, and vi for exceptions
9.11 vi	Four Major UK Banks: Barclays, HSBC, Lloyds TSB, RBS	N/a	N/a	N/a	N/a	£6 Million
Other periods						
9.11 iii	Guaranteed Counterparties with Sovereign Support , where: a) Wholesale deposits in the organisation are covered by a government guarantee b) The government providing the guarantee is rated AAA by all three major rating agencies (Fitch, Moody's and Standard and Poors), and c) The Authority's investments with the organisation are limited to amounts and maturities within the terms of the guarantee					In accordance with guarantee