

<b>Subject:</b>	Treasury Management Strategy & Treasury Management Practices (Updates for 2012/13)	<b>Status:</b>	For Publication
<b>Report to:</b>	Council	<b>Date:</b>	29 <sup>th</sup> February 2012
<b>Report of:</b>	Finance Manager	<b>Portfolio Holder:</b>	Finance and Resources
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<b>Contact Officer:</b>	<b>Philip Seddon</b>	<b>Telephone:</b>	<b>01706 252465</b>
<b>Email:</b>	<b>philseddon@rossendalebc.gov.uk</b>		

<b>1.</b>	<b>RECOMMENDATION(S)</b>
1.1	Members are asked to approve the Treasury Management Strategy Statement Treasury Management Practices.

## 2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to gain Council's approval of the Treasury Management Strategy Statement (TMS) and the subsequently updated Treasury Management Practices (TMP).

## 3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **A Clean and Green Rossendale** – creating a better environment for all, this priority focuses on clean streets and well managed open spaces.
  - **A Healthy and Successful Rossendale** – supporting vibrant communities and a strong economy, this priority focuses on health inequality, building resilient communities and supporting businesses.
  - **Responsive and value for money local services** – responding to and meeting the different needs of customers and improving the cost effectiveness of services.

## 4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Failure to comply with legal statute, Codes of Practice and regulations of the Council.
  - Financial risks and credit risks exposure as a result of treasury management decisions. The TMS lays the ground rules for balancing the desire to maximize interest earning capacity with the potential risks of investments in the financial sector, especially in the current economic climate.

## 5. BACKGROUND AND OPTIONS

- 5.1 This is an annual update of the Treasury Management Strategy (Appendix 1), following on from the Council's adoption of the Chartered Institute of Public Finance and Accountancy's

(CIPFA) Code of Practice on Treasury Management (revised November 2009) which was adopted by this Council on 24<sup>th</sup> February 2010.

- 5.2 Treasury management is concerned with how organisations manage their cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk and return. In the public services it is generally considered that the priority is to protect capital rather than maximize return.
- 5.3 The suggested Treasury Management Strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector.
- 5.4 The interest rates quoted on page 5 and 6 of the Strategy reflect the average of samples gathered by Sector from city and non-city forecasters, including HM Treasury. It should be noted that there is a large range in those forecasts, and the average is at best an educated estimate in today's financial climate. Whilst forecasters are comparatively confident about their estimates for the coming financial year, those for longer term are far less reliable.
- 5.5 The Treasury Management Strategy Statement covers:
- treasury limits in force which will limit the treasury risk and activities of the Council
  - Prudential and Treasury Indicators
  - the current treasury position
  - the borrowing requirement
  - prospects for interest rates
  - the borrowing strategy
  - policy on borrowing in advance of need
  - debt rescheduling
  - the investment strategy
  - creditworthiness policy
  - policy on use of external service providers
  - the MRP strategy
  - treasury management scheme of delegation and the relevant roles and responsibilities of delegated officers
- 5.6 As part of the Council's budget-setting work the estimates of future interest rates and capital financing costs (through the Minimum Revenue Provision) have been included in arriving at a balanced budget for 2012/13.
- 5.7 The Treasury Management Practices at Appendix 2 provide further operational detail on the policies within the Treasury Management Strategy Statement. These have been updated with the current predictions for future interest rates and recommended borrowing and investment strategy in the attached Treasury Management Strategy Statement.
- 5.8 The Treasury Management Practices cover
- risk management arrangements and techniques
  - performance measurement
  - decision making and operational controls within the day to day administration of treasury and cash flow management
  - measures to prevent money laundering
  - training requirements for staff included within the delegation arrangements in the Treasury Management Strategy Statement
  - further details on the use of external service providers

## COMMENTS FROM STATUTORY OFFICERS:

### 6. SECTION 151 OFFICER

6.1 Financial matters are dealt within the report

### 7. MONITORING OFFICER

7.1 There are no material implications

### 8. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

8.1 There are no material implications

### 9. CONSULTATION CARRIED OUT

9.1 Not Applicable

### 10. CONCLUSION

10.1 Adoption of the updated Treasury Management Strategy Statement and Treasury Management Practices will ensure continued compliance with the Code and reduce the Councils exposure to financial risk.

#### Background Papers

Document	Place of Inspection
Monthly detailed financial monitoring statements for each service area	Financial Services
Final Accounts working papers	Financial Services
Previously adopted 2011/12 TMS & TMP	Website: Full Council February 2011

**Treasury Management Strategy Statement,  
Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy 2012/13**

*Updated – February 2012*

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# 1. Introduction

## 1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

*“The management of the local authority's investments and 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. ”*

## 1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately reviewed and scrutinised by committee before being recommended to the Council. This role is undertaken by the Cabinet.

**Prudential and Treasury Indicators and Treasury Strategy** (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy or MRP (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**A Mid Year Treasury Management Reporting** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. This is included within the Council's regular financial monitoring report.

**An Annual Treasury Reporting** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This is included within the Council's end of year financial monitoring report.

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### 1.3 Treasury Management Strategy for 2012/13

The strategy for 2012/13 covers two main areas:

#### Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

#### Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

## 2. The Capital Prudential Indicators 2012/13 – 2014/15

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

#### Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
<b>Total</b>	<b>3,994</b>	<b>8,461</b>	<b>936</b>	<b>1,025</b>	<b>596</b>

*NB – The above represents the programme based on available resources.*

#### Other long term liabilities.

Council does not currently have any long term liabilities.

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The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

<b>Capital Expenditure</b>	<b>2010/11 Actual £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
<b>Financed by:</b>					
Capital receipts	627	998	403	129	100
Capital grants	2,195	1,843	523	523	386
Earmarked reserves	-	2,082	-	-	-
Revenue	271	373	10	210	110
<b>Net financing need for the year</b>	<b>901</b>	<b>3,165</b>	<b>-</b>	<b>163</b>	<b>-</b>

### **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

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The Council is asked to approve the CFR projections below:

	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
<b>Capital Financing Requirement:</b>					
<b>Total CFR</b>	<b>4,074</b>	<b>6,686</b>	<b>5,998</b>	<b>5,435</b>	<b>4,712</b>
<b>Movement in CFR</b>	<b>355</b>	<b>2,612</b>	<b>(688)</b>	<b>(563)</b>	<b>(723)</b>

<b>Movement in CFR represented by:</b>					
Net financing need for the year (above)	901	3,165	-	163	-
Less MRP and other financing movements	(546)	(553)	(688)	((726)	((723)
<b>Movement in CFR</b>	<b>355</b>	<b>2,612</b>	<b>(688)</b>	<b>(563)</b>	<b>(723)</b>

### MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DCLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement :

Since the 1st April 2008 all unsupported borrowing (including PFI and finance leases when applicable) has been repaid using the following MRP policy:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

This provides for a reduction in the borrowing need over approximately the asset's life.

### The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

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<b>Year End Resources</b>	<b>2010/11 Actual £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
General Fund balance	963	1,002	1,002	1,002	1,002
Earmarked reserves	5,950	3,430	2,254	1,578	1,190
Capital receipts	1,224	332	-	-	-
Government Grants Unapplied	1,414	625	438	268	235
Other					
<b>Total core funds</b>	<b>9,551</b>	<b>5,389</b>	<b>3,694</b>	<b>2,848</b>	<b>2,427</b>
Working capital*	<b>2,393</b>	<b>935</b>	<b>739</b>	<b>777</b>	<b>895</b>
Under/(over) borrowing**	(342)	2,454	1,955	1,571	1,032
<b>Expected investments</b>	<b>7,500</b>	<b>2,000</b>	<b>1,000</b>	<b>500</b>	<b>500</b>

\*Working capital balances shown are estimated year end; these may be higher mid year

### **Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

**Actual and estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2010/11 Actual %</b>	<b>2011/12 Estimate %</b>	<b>2012/13 Estimate %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>
Total	1.8%	1.9%	1.9%	1.8%	1.7%

The estimates of financing costs include current commitments and the proposals in this budget report.

**Estimates of the incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

### **Incremental impact of capital investment decisions on the band D council tax**

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	<b>2009/10 Actual £</b>	<b>2011/12 Estimate £</b>	<b>2012/13 Estimate £</b>	<b>2013/14 Estimate £</b>	<b>2014/15 Estimate £</b>
<b>Council tax - band D</b>	£5.94	£5.83	-	£1.07	-

The above simply represents the movement of the net financing need (as above) over the life of the asset divided by the Band D tax base. The impact of such financing has in fact been offset by other operational savings.

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### 3. Treasury Management Strategy

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2011, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
<b>External Debt</b>					
Debt at 1 April	4,600	4,416	4,232	4,048	3,864
Expected change in Debt	(184)	(184)	(184)	(184)	(184)
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
<b>Actual debt at 31 March</b>	<b>4,416</b>	<b>4,232</b>	<b>4,048</b>	<b>3,864</b>	<b>3,680</b>
<b>The Capital Financing Requirement</b>	<b>4,074</b>	<b>6,686</b>	<b>5,998</b>	<b>5,435</b>	<b>4,712</b>
<b>Under / (over) borrowing</b>	<b>(342)</b>	<b>2,454</b>	<b>1,950</b>	<b>1,571</b>	<b>1,032</b>

<b>Total investments at 31 March</b>					
Investments	<b>7,500</b>	<b>2,000</b>	<b>1,000</b>	<b>500</b>	<b>500</b>
Investment change	(500)	(5,500)	(1,000)	(500)	-

<b>Net Debt</b>	<b>(3,084)</b>	<b>2,232</b>	<b>3,048</b>	<b>3,364</b>	<b>3,180</b>
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Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

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## 3.2. Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Debt	7.3	6.5	6.9	5.2
Other long term liabilities	0.0	0.0	0.0	0.0
Total	7.3	6.5	6.9	5.2

**The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit:

Authorised limit	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Debt	5.2	5.0	4.9	4.7
Other long term liabilities	0.0	0.0	0.0	0.0
Total	5.2	5.0	4.9	4.7

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### 3.3. Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

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## 3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Head of Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, 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.*

Any decisions will be reported to Cabinet at the next available opportunity.

### Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any 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. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2012/13	2013/14	2014/15
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	0%	0%	0%

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<b>Limits on fixed interest rates:</b>			
• <i>Debt only</i>	100%	100%	100%
• <i>Investments only</i>	90%	90%	90%
<b>Maturity Structure of fixed interest rate borrowing 2012/13</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	5%	
12 months to 2 years	0%	10%	
2 years to 5 years	0%	15%	
5 years to 10 years	0%	25%	
10 years and above	0%	45%	
<b>Maturity Structure of variable interest rate borrowing 2012/13</b>			
	<b>Lower</b>	<b>Upper</b>	
<i>Under 12 months</i>	<i>0%</i>	<i>0%</i>	
<i>12 months to 2 years</i>	<i>0%</i>	<i>0%</i>	
<i>2 years to 5 years</i>	<i>0%</i>	<i>0%</i>	
<i>5 years to 10 years</i>	<i>0%</i>	<i>0%</i>	
<i>10 years and above</i>	<i>0%</i>	<i>0%</i>	

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### 3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

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## 3.7. Annual Investment Strategy

### 3.7.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" (CDS) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix 3 and 4 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

### 3.7.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which

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the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \*
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

*\* Sector note: this category is for AAA rated Government debt or its equivalent; please also see collateralised deposits added into appendix 4 as an investment instrument.*

This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Individual of Viability ratings of C- (or BB+), and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a regular basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

### 3.7.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public

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Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities will be security first, liquidity second, then return.

Investment instruments identified for use in the financial year are listed in appendix 4 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

**Investment Counterparty Selection Criteria** - The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

- **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 below; and**
- **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 Council’s prudential indicators covering the maximum principal sums invested.**

The Head of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council’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 Council’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.

Credit rating information is supplied by Sector, our treasury consultants, 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 to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

and have, as a minimum, the following Fitch, Moody’s and Standard and Poors credit ratings (where rated):

  - i. Short term - F1

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- ii. Long term – A
  - Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
  - Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
  - Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  - Local authorities, parish councils etc
  - Supranational institutions

**Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 20% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Council 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.

**Time and monetary limits applying to investments.** All investments will be made for no more than 365 days.

3. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 4 for approval.

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### 3.7.4 Investment Strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.80%
2013/14	1.30%
2014/15	2.50%
2015/16	3.30%
2016/17	4.10%

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council'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.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days	2012/13 £m	2013/14 £m	2014/15 £m
Principal sums invested > 364 days	Nil	Nil	Nil

### 3.8 End of year investment report

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

### 3.9 External fund managers

The Council does not currently use external fund managers.

### 3.10 Policy on the use of external service providers

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The Council uses Sector as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

### **3.11 Scheme of delegation**

Please see appendix 6.

### **3.12 Role of the section 151 officer**

Please see appendix 7.

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## Appendices

1. Interest rate forecasts
2. Economic background
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## APPENDIX 1 - Interest Rate Forecast 2011/2015

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
<b>Sector's Bank Rate View</b>	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
<b>3 Month LIBID</b>	<b>0.87%</b>	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
<b>6 Month LIBID</b>	<b>1.16%</b>	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
<b>12 Month LIBID</b>	<b>1.65%</b>	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
<b>5yr PWLB Rate</b>	<b>2.25%</b>	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
<b>10yr PWLB Rate</b>	<b>3.33%</b>	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
<b>25yr PWLB Rate</b>	<b>4.24%</b>	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
<b>50yr PWLB Rate</b>	<b>4.26%</b>	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
<b>Bank Rate</b>															
<b>Sector's View</b>	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
<b>UBS</b>	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
<b>5yr PWLB Rate</b>															
<b>Sector's View</b>	<b>2.25%</b>	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
<b>UBS</b>	<b>2.25%</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	<b>2.25%</b>	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
<b>10yr PWLB Rate</b>															
<b>Sector's View</b>	<b>3.33%</b>	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
<b>UBS</b>	<b>3.33%</b>	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	<b>3.33%</b>	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
<b>25yr PWLB Rate</b>															
<b>Sector's View</b>	<b>4.24%</b>	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
<b>UBS</b>	<b>4.24%</b>	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	<b>4.24%</b>	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
<b>50yr PWLB Rate</b>															
<b>Sector's View</b>	<b>4.26%</b>	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
<b>UBS</b>	<b>4.26%</b>	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	<b>4.26%</b>	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

# Treasury Management Strategy Statement 2012/13

## APPENDIX 2 Economic Background

### 4.1. Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimism for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”. Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

**The US economy** has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the ability to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

### 4.2 UK economy

The Government’s austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

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**Economic Growth.** GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitative Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

**Unemployment.** With the impact of the Government's austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

**Inflation and Bank Rate.** For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

**AAA rating.** The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

## 4.3 Sector's forward view

Economic forecasting remains troublesome with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

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The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

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## APPENDIX 3 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of 0% \*\* will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	* Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	50% / £5m	6 months
UK Government gilts	AAA	50% / £5m	12 months
UK Government Treasury bills	AAA	50% / £5m	12 months
Money market funds	AAA	50% / £5m	Liquid
Local authorities	N/A	50% / £5m	12 months
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	50% / £5m	Up to 5 years Up to 2 years Up to 1 year Up to 6 Months Up to 3 months Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	50% / £5m	Up to 5 years Up to 2 years Up to 1 year Up to 6 Months Up to 3 months Not for use

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## SPECIFIED INVESTMENTS:

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

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	See note 1	In-house
Term deposits – banks and building societies **	* Short-term __, Long-term __, Individual __, Support __	Fund Managers

## Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
UK part nationalised banks	Green	In-house	50% / £5m	12 Months
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating (AAA)	In-house	50% / £5m	12 Months

*50% equates to the percentage at the time the investment is placed with any one institution.*

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
UK Government Gilts	UK sovereign rating	In-house
Treasury Bills	UK sovereign rating	In-house

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## 2. Maturities in excess of 1 year

This Council will limit its investments up to a maximum of 12 months.

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## Appendix 4 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 24<sup>th</sup> February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Head of Financial Services 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 that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, 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 Council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. 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 Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment

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vehicles, such as money market funds, rated A by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum short term rating of A(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 Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is 12 months and £5m.

**Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

<b>Non Specified Investment Category</b>	
a.	<p><b>Supranational Bonds greater than 1 year to maturity</b></p> <p><b>(a) Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).</p> <p><b>(b) A financial institution that is guaranteed by the United Kingdom Government</b> (e.g. The Guaranteed Export Finance Company {GEFCO})</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>
b.	<p><b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>
c.	<p><b>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</b></p>
d.	<p><b>Building societies not meeting the basic security requirements under the specified investments.</b> The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £250m, but will restrict these type of investments to £2m</p>
e.	<p>Any <b>bank or building society</b> that has a minimum long term credit rating of A, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).</p>

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Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. This criteria is UK high street presence (if applicable) for all specified and non-specified investments. Non-specified investments are also limited to 30% of available funds for investment. The current custom and practice is however to restrict investments to high street banks only.

**The Monitoring of Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector 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 Head of Financial Services, and if required new counterparties which meet the criteria will be added to the list.

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## APPENDIX 5 Approved countries for investments

*Based on lowest available rating*

### AAA

- Australia
- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

### AA+

- Belgium
- Hong Kong
- U.S.A.

### AA

- Kuwait
- UAE

### AA-

- Japan
- Qatar
- Saudi Arabia

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## APPENDIX 6 Treasury management scheme of delegation

### (i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

### (ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

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## APPENDIX 7 The treasury management role of the section 151 officer and other officers

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

### The Deputy S151 officer (being the Finance Manager)

In the absence of the S151 officer, the Deputy S151 officer will take over the responsibilities noted above.

### The Exchequer Manager

- Transfer of Funds between the Councils approved call accounts.
- Transfer of funds to the Councils approved investors for a period no greater than 7 days.

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## APPENDIX 12 Glossary

### **Authorised Limit for External Debt**

The Authorised Limit, like all other prudential indicators, has to be set and revised by elected members. It should not be set so high that it would never in any possible circumstances be breached but rather reflect a level of borrowing which while not desired, could be afforded but may not be sustainable

**bp** – basis points (in relation to, inter alia, bank base rates)

### **Capital Expenditure**

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

### **Capital Financing Requirement**

This important component of an authority's capital strategy is the amount of capital spending that has not been financed by capital receipts, capital grants, and contributions from revenue. It is a measure of the underlying need to borrow for capital purposes.

**CIPFA** – Chartered Institute of Public Finance and Accountancy.

**CPI** – Consumer Price Index

### **Debt Rescheduling**

Similar to re-mortgaging a house, in so far as, loans are repaid before maturity, and replaced with new loans, usually at a more advantageous rate of interest.

**DCLG** - Department of Communities and Local Government.

**ECB** – European Central Bank

**GDP** – Gross Domestic Product

**IMF** – International Monetary Fund

**LIBOR** – London Inter Bank Offer Rate

### **Liquidity**

Access to cash deposits at very short notice.

### **Long term Investments**

Investments with a duration of more than one year.

### **Market Loans**

Loans borrowed from financial institutions such as banks and building societies.

### **Maturity**

The date at which loans are due for repayment.

### **Net Borrowing Requirement**

The Council's borrowings less cash and short term investments.

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## **Operational Boundary for External Debt**

This indicator is, as its name suggest, the focus of day to day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed 'Authorised Limit'. However it differs from the 'Authorised Limit' in being based on expectations of the maximum external debt of the authority according to probable- not simply possible-events and being consistent with the maximum level of external debt projected by the estimates.

## **Prudential Borrowing**

This is borrowing wholly supported by the Council and would include 'invest to save projects'. Market conditions permitting it may well be cheaper to borrow rather than lease vehicles and or plant.

## **Public Works Loan Board**

A Government agency that provides longer term loans to local authorities.

## **Ratio of Financing costs to Net Revenue Stream**

This is the proportion of interest payments plus debt repaid less interest receipts expressed as a proportion of the revenue stream. In the case of General Fund the revenue stream equates to the budget requirement of £11.9m (funded by Rate Support Grant, Business Rates and Council Tax).

## **Repurchase Rate (Repo)**

This is equivalent to the Bank of England base rate.

## **Short-term investment**

Investments with a duration of less than or equal to 365 days.

## **Supported Borrowing**

This is borrowing that is supported by the government through the revenue support grant and housing subsidy grant.

## **Term Deposit**

Investments for a pre-defined period of time at a fixed interest rate.

## **Upper Limit for fixed/variable interest rate exposure**

This relates to the limit in loans which can be held in either fixed interest rates or variable interest rates. Whilst fixed interest-rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates.

## **Volatility**

Sudden upward or downward movements in interest rates in reaction to economic, market and political events.

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# Treasury Management Practices

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# TMP 1 RISK MANAGEMENT

The responsible officer (in the case of Rossendale Borough Council The Head of Finance and Property Services) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

## 1. Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

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

### 1.1. Policy on the use of credit risk analysis techniques

- 1.1.1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- 1.1.2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
- 1.1.3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
- 1.1.4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. This organisation will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -
  - Purple 2 years
  - Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
  - Orange 1 year
  - Red 6 months
  - Green 3 months
  - No Colour not to be used

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In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector “Guide to Establishing Credit Policies April 2009” for a full explanation.

1.1.5. Credit ratings for individual counterparties can change at any time. The Head of Finance is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

1.1.6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

1.1.7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows:

#### **Maturities up to maximum of 1 year**

(All such investments will be sterling denominated, meeting the minimum ‘high’ rating criteria where applicable)

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Short-term, Long-term, Individual, Support	In-house and Fund Managers

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
UK nationalised banks		In-house and Fund Managers	100%	2yrs
Banks nationalised by high credit rated (sovereign rating) countries*	Short-term, Long-term, Individual, Support	In-house and Fund Managers	0%	n/a
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries*	Sovereign rating	In-house and Fund Managers	0%	n/a
UK Government support to the banking sector**	Sovereign rating	In-house and Fund Managers	100%	2 yrs

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\* eg. Ireland (A+), Australia (AA+), Singapore (AAA), Hong Kong (AA)

\*\*Banks eligible for support under the UK bail-out package: -

Abbey	HSBC
Barclays	Nationwide Building Society
HBOS	RBS
Lloyds TSB	Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

Bank of Scotland	Rothschild Continuation Finance plc
Barclays	Standard Life Bank
Clydesdale	Tesco Personal Finance plc
Coventry Building Society	Royal Bank of Scotland
Investec bank	West Bromwich Building Society
Nationwide Building Society	Yorkshire Building Society

	Minimum 'High' Credit Criteria	Use
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Short-term, Long-term, Individual, Support	In-house buy and hold and Fund Managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Short-term, Long-term, Individual, Support	In-house buy and hold and Fund Managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	UK sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In-house buy and hold and Fund Managers
Treasury Bills	--	Fund Managers

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## Maturities in excess of 1 year

	Minimum 'High' Credit Criteria	Use
Term deposits – local authorities	Short-term, Long-term, Individual, Support	In-house
Term deposits – banks and building societies	Short-term, Long-term, Individual, Support	In-house
Certificates of deposits issued by banks and building societies	Short-term, Long-term, Individual, Support	In house and Fund Managers
UK Government Gilts	AAA	In-house and Fund Managers
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and Fund Managers
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In-house and Fund Managers
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>		
1. Bond Funds	Long-term __volatility rating	In-house and Fund Managers
2. Gilt Funds	Long-term __volatility rating	In-house and Fund Managers

1.1.8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £5m or 50%, whichever is greater.
- Group limits where a number of institutions are under one ownership – maximum of £10m
- Country limits – a minimum sovereign rating of AAA is required for an institution to be placed on our approved lending list.

1.1.9. Investments will not be made with counterparties that do not have a credit rating in their own right

1.1.10. The definition of 'high credit quality' \*\* in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail minimum procedural formalities in terms of the placing of those investments by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.

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## 1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### 1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

### 1.2.2. Details of:

- a. Standby facilities  
At the end of each financial day any unexpected surplus funds are transferred to the SIBA account which is available from the Council's main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.
- b. Bank overdraft arrangements  
Previous overdraft facilities have now ceased due to the bank imposing an arrangement fee.
- c. Short-term borrowing facilities  
The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £8.5m.
- d. Insurance/guarantee facilities  
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

## 1.3 Interest Rate Risk Management

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

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

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of

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costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

### 1.3.1 Policies concerning the use of instruments for interest rate management.

- a. forward dealing  
Consideration will be given to dealing from forward periods dependant upon market conditions.
- b. callable deposits (England and Wales only)  
The Council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.
- c. LOBOS (borrowing under lender's option/borrower's option)  
Use of LOBOs are/ considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by Head of Finance

### 1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

### 1.5 Refinancing Risk Management

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

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

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

#### 1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually

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monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Cabinet at the meeting immediately following its action

### **1.5.2. Projected Capital Investment Requirements**

The responsible officer will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

#### **England and Wales**

Under the new capital financing system, the definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice (SORP).

### **1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

*(Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)*

The Council will use the definitions provided in the Prudential Code for borrowing (64), capital expenditure (65), capital financing requirement (67), debt (67), financing costs (68), investments (69), net borrowing (70), net revenue stream (71), other long term liabilities (72).

## **1.6 Legal and Regulatory Risk Management**

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

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

### 1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

#### English Authorities: -

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 01.04.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 f(Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Revised Guidance on Investments DCLG 1.4.2010
  
- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA (housing authorities) – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)
  
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2009,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2009

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- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
  - CIPFA Standard of Professional Practice on Treasury Management 2002
  - CIPFA Standard of Professional Practice on Continuous professional Development 2005
  - CIPFA Standard of Professional Practice on Ethics 2006
  - The Good Governance Standard for Public Services 2004
  - LAAP Bulletins
  - CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (which replaced the SORP in April 2010)
- 
- PWLB circulars on Lending Policy
  - The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
  - Financial Services Authority's Code of Market Conduct
- 
- The Council's Standing Orders relating to Contracts
  - The Council's Financial Regulations
  - The Council's Scheme of Delegated Functions

### **1.6.3 Procedures for Evidencing the Council's Powers/Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

#### **England and Wales**

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

#### **Required Information on Counterparties**

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

### **1.6.4 Statement on the Council's Political Risks and Management of Same**

The responsible officer shall take appropriate action with the Council, the Chief Executive Officer and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.6.4 Monitoring Officer**

The monitoring officer is the Director of Business; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.6.5. Chief Financial Officer**

The Chief Financial Officer is the Head of Finance and Property Services: the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

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## 1.7 Fraud, Error and Corruption, and Contingency Management

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

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

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

### 1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

#### Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

#### Procedures

- Electronic banking procedures
- CHAPS payments.

#### Investment and borrowing transactions

- A detailed register of all loans and investments is maintained by the Exchequer Manager
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Head of Finance for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Head of Finance for resolution.

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### **Regularity and security**

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

### **Checks**

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- A debt charge/investment income listing is produced every month when a review is undertaken against the budget for interest earnings and debt costs.

### **Calculations**

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Exchequer Manager. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledger. These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund.

## **1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.**

All members of the treasury management team are familiar with this plan and new members will be briefed on it. The plan is reviewed and updated at regular intervals

All computer files are backed up on the server to enable files to be accessed from remote sites.

## **1.7.3. Insurance Cover Details**

### **Fidelity Insurance**

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. This cover is limited to £5.5m for any one event with an excess of £1k for any one event

### **Professional Indemnity Insurance**

The Council also has a 'Officials Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are

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negligent and without due care. This cover is limited to £5m for any one event with an excess of £nil for any one event.

## **1.8 Market Risk Management**

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

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

### **1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)**

England and Wales only – these are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy (which now forms part of the Annual Treasury Management Strategy Statement).

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# TMP 2 PERFORMANCE MEASUREMENT

## 2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions:

- a. monthly reviews carried out by the Head of Finance and Finance Manager, reported as part of the monthly financial monitoring reports to Cabinet.
- b. monthly review reports from our treasury management consultants detailing current markets, forecasts and model portfolio returns
- c. annual review of performance and strategy with our treasury management consultants
- d. comparative reviews

### 2.1.2 Reviews with our treasury management consultants

The Head of Finance meets with our consultants every 12 months to review the performance of the investment and debt portfolios.

### 2.1.3 Annual Review after the end of the financial year

In addition to the monthly financial monitoring reports to Cabinet, the end of March out-turn report includes an annual treasury management report which reviews the performance of the debt and investment portfolios. This report contains the following:

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. comparison of return on investments to the investment benchmark
- h. compliance with Prudential and Treasury Indicators
- i. other

### 2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- SECTOR model portfolios
- Average market rates

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## **2.2 Benchmarks and Calculation Methodology:**

### **2.2.1 Debt management**

- Average rate on all external debt
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

### **2.2.2 Investment**

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
- b. SECTOR model portfolio

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

## **2.3 Policy Concerning Methods for Testing Value for money in Treasury Management**

### **2.3.1 Frequency and processes for tendering**

Tenders are normally awarded on an annual basis The process for warding contracts will be in line with the Council's Contract Standing Orders.

### **2.3.2 Banking services**

The Council's banking arrangements are to be subject to competitive tender unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

### **2.3.3 Money-broking services**

The Council may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

### **2.3.4 Consultants'/advisers' services**

This Council's policy is not to appoint full-time professional treasury management consultants (SECTOR advise on an ad hoc basis, alongside automated updates)

### **2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)**

The Council's policy is not to appoint external investment fund managers.

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# TMP 3 DECISION-MAKING AND ANALYSIS

## 3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

### 3.1.1 Records to be kept

The following records will be retained:-

- Daily and monthly cash balance forecasts
- Money market rates obtained by telephone and e-mail from brokers or direct
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager(s)
- Fund manager(s) valuation statements (if applicable)

### 3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring (if applicable)
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actual against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

### 3.1.3 Issues to be addressed.

#### 3.1.3.1. In respect of every treasury management decision made the Council will:

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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**3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding. .

**3.1.3.3 In respect of investment decisions, the Council will:**

- a) consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

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# TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

## 4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

## 4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy (updated February 2012).

## 4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

## 4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

### Other Methods of Financing

- Government and EC Capital Grants
- Lottery monies
- PFI/PPP
- Operating leases

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Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

#### **4.5 Investment Limits**

The Treasury Management Strategy Statement sets out the limits and the guidelines for use of each type of investment instrument.

#### **4.6 Borrowing Limits**

See the Treasury Management Strategy Statement.

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# TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

## 5.1 Allocation of responsibilities

### (i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- Budget approval

### (ii) Full Council, Cabinet,

- recommendation of amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and recommendations
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

### (iii) Audit and Accounts Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## 5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Production of transfer note. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

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### 5.3 Treasury Management Organisation Chart

Head of Financial  
Services

|

Finance Manager

|

Exchequer  
Manager

### 5.4 Statement of the treasury management duties/responsibilities of each treasury post

#### 5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Head of Finance (This post is also the S151 officer.) This officer will carry out the following duties: -

- a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) submitting regular treasury management policy reports
- c) submitting budgets and budget variations
- d) receiving and reviewing management information reports
- e) reviewing the performance of the treasury management function
- f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) ensuring the adequacy of internal audit, and liaising with external audit
- h) recommending the appointment of external service providers.
- i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Officer Treasury Management Team or the Accountancy Assistants Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as

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appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

#### **5.4.2. Exchequer Manager**

The responsibilities of this post will be: -

- a) execution of transactions
- b) adherence to agreed policies and practices on a day-to-day basis
- c) maintaining relationships with counterparties and external service providers
- d) supervising treasury management staff
- e) monitoring performance on a day-to-day basis
- f) submitting management information reports to the responsible officer
- g) identifying and recommending
- h) opportunities for improved practices

#### **5.4.3. The Head of the Paid Service – the Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the responsible officer reports regularly to full Council and Cabinet on treasury policy, activity and performance.

#### **5.4.4. The Monitoring Officer – the Head of Legal Services**

The responsibilities of this post will be: -

- a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the responsible officer when advice is sought.

#### **5.4.5. Internal Audit**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

### **5.5 Absence Cover Arrangements**

The Finance Manager is also the deputy S151 Officer.

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## 5.6 Dealing Limits

The following posts are authorised to deal:

- The Head of Financial Services: limited to investments and loans of £5m per transaction. Amounts in excess of this limit should be by Scheme of Delegation.

## 5.7 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers.

## 5.8 Policy on Taping of Conversations

It is not this Council's policy to tape brokers conversations.

## 5.9 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged by this method. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

## 5.10 Settlement Transmission Procedures

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For payments a transfer will be made through the BACs or CHAPs to be completed by the appropriate bank deadlines in place that day.

## 5.11 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

## 5.12 Arrangements Concerning the Management of Third-Party Funds.

The Council does not currently manage any third-party funds. Trust funds are now held and administered by the Community Foundation for Lancashire.

## 5.13 Council Cheque and Bank Signatories

Current signatories are available to Members on request from the Head of Financial Services.

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## **TMP 6 Reporting Requirements and Management**

### **Information Arrangements**

#### **6.1 Annual programme of reporting**

- a) Annual reporting requirements before the start of the year: -
  - a. review of the organisation's approved clauses, treasury management policy statement and practices
  - b. strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Regular review by Cabinet within the Financial Monitoring Reports
- c) Annual review report after the end of the year

#### **6.2 Annual Treasury Management Strategy Statement**

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
  - a) Prudential and Treasury Indicators
  - b) current Treasury portfolio position
  - c) borrowing requirement
  - d) prospects for interest rates
  - e) borrowing strategy
  - f) policy on borrowing in advance of need
  - g) debt rescheduling
  - h) investment strategy
  - i) creditworthiness policy
  - j) policy on the use of external service providers
  - k) any extraordinary treasury issue
  - l) the MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

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### 6.3 The Annual Investment Strategy Statement

Included within the Treasury Management Strategy Statement is the report on the Annual Investment Strategy which sets out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both (if applicable)
- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

### 6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

### 6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

### 6.6 Regular and midyear review

The Council will review its treasury management activities and strategy on at least a six monthly basis, though in practice as part of regular financial monitoring to Cabinet. This review will consider the following:

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

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## 6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented to the to the Cabinet and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include, inter alia, the following: -

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

## 6.8 Management Information Reports

Management information reports will be prepared for each Cabinet meeting. These reports will contain the following information: -

- a) a summary of transactions executed (may want to add brokers used and fees paid) and their revenue (current effects);
- b) measurements of performance including effect on loan charges/investment income;
- c) degree of compliance with original strategy and explanation of variances.
- d) any non compliance with Prudential limits or other treasury management limits.

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# **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

## **7.1 Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

## **7.2 Accounting Practices and Standards**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

## **7.3 Sample Budgets / Accounts / Prudential and Treasury Indicators**

The Head of Finance will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Head of Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

## **7.4 List of Information Requirements of External Auditors.**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the <<system >>
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values (if applicable)

## **7.5 Monthly Budget Monitoring Report**

Monthly Budget Monitoring reports are produced for Members, Cabinet and Managers. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

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# TMP 8 Cash and Cash Flow Management

## 8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared according to known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

## 8.2 Bank Statements Procedures

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A formal bank reconciliation is undertaken on a monthly basis by the Finance Department

## 8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay all creditors as per the agreed terms of trading. We seek to achieve a 97.5% success rate with regard to paying creditors.

## 8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Exchequer Manager is responsible for monitoring the levels of debtors and creditors.

## 8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the Exchequer Department to deposit in the Council's banking accounts. Cash and cheques banked the previous day will be taken into account in the daily cash flow.

## 8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Head of Finance.

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# TMP 9 Money Laundering

## 9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

## 9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

## 9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

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## 9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is Head of Finance
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is The Head of Legal and Democratic Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

## 9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

## 9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

All transactions will be carried out by BACS or CHAPs for making deposits or repaying loans.

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# TMP 10 Training and Qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Head of Finance to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

## 10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

## 10.2 Records of Training Received by Treasury Staff

The People and Policy department will maintain records on all staff and the training they receive.

## 10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain firsthand experience of treasury management operations.

## 10.4 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom – the CODE (which replaced the SORP in April 2010)

1. Where the Chief Financial Officer is a member of ICAEW, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. All staff involved in treasury management activities must also comply with the CODE.

## 10.6 Member training records

Records will be kept of all training in treasury management provided to members.

## 10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

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# TMP 11 Use of External Service Providers

## 11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

### 11.1.1 Banking Services

- a) Name of supplier of service is the NatWest Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is:  
PO Box 81  
36 Hamilton Square  
Birkenhead  
Merseyside  
CH41 5LG Tel :- 0151 802 9354
- d) Contract commenced 1992.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments due monthly and quarterly

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### **11.1.2 Money-Broking Services**

The Council may use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers.

### **11.1.3 Consultants'/Advisers' Services**

#### **Treasury Consultancy Services**

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed annually by the Head of Finance to check whether performance has met expectations.

- a) Name of supplier of service is Sector Treasury Services Limited. Their address is 17 Rochester Row, London SW1P 1QT (Tel: 0871 664 6800)
- b) Regulatory status: investment adviser authorised by the FSA
- c) Contract commenced during the 1990s and runs on an annual basis.
- d) Cost of service in 2011/12 was £6,495.
- e) Payments due bi-annually in February and August.

## **11.2 Procedures and Frequency for Tendering Services**

As per the Council's contract procedure rules

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# TMP 12 Corporate Governance

## 12.1.1 List of Documents to be Made Available for Public Inspection

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -
  - Treasury Management Strategy Statement
  - including the Annual Investment Strategy
  - Treasury Management Policy Statement
  - Minimum Revenue provision policy statement
  - Treasury Management monitoring reports produced as part of the Council's regular financial monitoring reports to Cabinet.
  - Annual statement of accounts
  - Annual budget (both revenue and capital)
  - 3 Year Capital Plan
  - Minutes of Council / Cabinet / committee meetings
  - Third party expenditure via monthly corporate spend analysis published on the website to comply with the coalition government's transparency agenda.

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