

## **CABINET – 18th March 2010**

### **Report of the Chief Executive**

#### **ITEM 9 TREASURY MANAGEMENT PRACTICES**

##### Purpose of the Report

To seek the adoption by the Council of the attached Treasury Management Practices (TMP) to comply with the requirements of the CIPFA Treasury Management in the Public Services Code of Practice.

##### Recommendation

To recommend that Council adopt revised Treasury Management Practices as detailed in the attached Appendix.

##### Reason

To meet the requirements of the revised CIPFA Code on Treasury Management Policies. In addition, the Prudential Code of Capital Finance in Local Authorities, which under the provisions of the Local Government Act 2003 took effect from 1st April 2004, includes a requirement as its first prudential indicator that the local authority has adopted the CIPFA Code.

##### Policy Context

The effective management and control of the borrowing and investments of a Council is an essential component of the Strategy of a Better Council.

##### Background

Treasury Management is defined as “the management of the organisation’s 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”. Designated staff in Financial Services perform all the work of the Council associated with treasury management.

The Code of Practice was first issued in 1992, following the exposure of shortcomings in the relevant financial procedures in a number of local authorities highlighted by the collapse of the Bank of Credit and Commerce International (BCCI).

The last major revision was in 2003 following the enactment of the Local Government Act 2003 and the consequent requirement for authorities to adopt the Prudential Code for Capital Finance (a section of which embraces Treasury Management). This formed the basis of the Council’s current Code. CIPFA have now reviewed their Code following the Icelandic bank problem and the attached appendix incorporates their recommendation in to the council’s code. The Council’s current Treasury Management Practices were adopted by Council on 2 March 2009.

The Practices are now all in one document and this sets out in greater detail the management of risk, day to day management, responsibilities, delegations, reporting, use of advisers etc. The emphasis is on ensuring that the Council funds are invested with the goals of ensuring security and liquidity of its capital and, provided these are achieved to obtain value for money from its investments.

The new code will not require any major changes to the way the Council operates its Treasury function, except there will be greater reporting to the full Council.

Financial Implications

None directly

Risks

No direct risks identified with the adoption of these practices.

Scrutiny:    Audit Committee

Key Decision:                                    No

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**CHARNWOOD BOROUGH COUNCIL**  
**TREASURY MANAGEMENT PRACTICES**  
**MARCH 2010**

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# TMP1 Risk Management

The Chief Financial Officer (CFO), who will be the S151 Officer, 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.

## 1.1 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.

### 1.1.1 Policy on the use of credit risk analysis techniques

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. The CFO 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: -

- Green – 3 months
- Red – 6 months
- Orange – 12 months
- Purple – 2 years
- Blue for nationalised or semi nationalised UK banks – 1 year

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 may obtain full information from the Head of Financial Services.

In addition the Council has the following limits:

- Other Local Authorities – 12 months
- Government Debt Management Office (DMO) – No limit

5. Credit ratings for individual counterparties can change at any time. The CFO 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.
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
7. maximum maturity periods and amounts to be placed in different types of investment instrument are currently as follows: -

	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
UK Debt Management Office Deposit Facility	Government backed	In-house and Fund Manager
Term deposits – local authorities	High Security – not credit rated	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers (Maximum sum per counterparty is £5m)
Certificates of deposits issued by Banks and Building Societies	Short-term F1+, Long term AA, Individual B/C, Support 1/ 2	Fund Manager
UK Government Gilts	Long Term AAA	Fund Manager
Money Market Funds	Long term AAA	Fund Manager and In-house (Maximum limit of £3m in MMFs in house)
Bonds issued by multilateral development banks	Long term AAA	Fund Manager

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Banks nationalised by high credit rated (sovereign rating) countries	Short-term F1+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers	<b>25% in house</b>	<b>3 months or as long as guarantee exists from Government (In house)</b>
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries	Sovereign rating AAA	In-house and Fund Managers	<b>25% in-house</b>	<b>3 months (in house)</b>
UK Government support to the banking sector**	Sovereign rating AAA	In-house and Fund Managers	<b>100%</b>	<b>364 days (in house)</b>

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

- Santander UK
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits – banks and building societies	Short-term F1+, Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
Certificates of deposits issued by banks and building societies	Short-term F1+ Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
UK Government Gilts	AAA	Fund Managers	50% restriction above 364 days	10 years
Bonds issued by multilateral development banks	AAA or government guarantee	Fund Managers	50%	Not to exceed 10 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	Fund Managers	50% restriction above 364 days	Not to exceed 2 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	50%	Not to exceed 10 years
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>				
1. Bond Funds	Long-term AAA volatility rating	Fund Managers	50% restriction above 364 days	Open ended
2. Gilt Funds	Government backed and AAA	Fund Managers	50% restriction above 364 days	Open ended

These are revised at least annually as part of the Annual Investment Strategy approved by Council.

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, except the DMO which is unlimited.
- Group limits where a number of institutions are under one ownership – maximum of £5m
- Country limits – a minimum sovereign rating of AA+ is required for an institution to be placed on our approved lending list. The list of countries which currently meet this criteria is: -

Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK, USA, Australia and Belgium

9. Investments will not be made with counterparties that do not have a credit rating in their own right, except for other local authorities and the DMO.



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.
11. The Council's external fund manager(s) will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however it is understood that the fund manager(s) may use a subset of the counterparty list so derived.
12. Full Individual Listings of Counterparties and Counterparty Limits as at 9 March 2010 are attached at Appendix 1.
- 13. Note: All limits refer to principal only and not principal plus accrued interest.**

## 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 Council's call account facility which is available from one of the UK's main banks. The balance on this account is instantly accessible if the group bank account becomes overdrawn.
- b. Bank overdraft arrangements  
A £0.5m overdraft at 1% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.
- 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 £3m.
- 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.
- e. Special payments  
The Head of Financial Services requires two days notice to be given for all special payments above £1,000,000.

## 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 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** Details of approved interest rate exposure limits:

- Fixed Rate borrowing/investment as a percentage of all borrowing/investments – 75%
- Variable Rate exposure for borrowing/investments as a percentage of all borrowing/investments – 100%.

**1.3.2** Trigger points and other guidelines for managing changes to interest rate levels.

- The council has one borrowing at present and there are no formal trigger points for reviewing the debt structure.
- The Council's in-house investments are all under one year and are regularly reviewed upon maturity. Similarly, the Council's Fund Managers review their holdings on a daily basis.

- Further details are available in the Council's Annual Treasury Management Strategy Statement.
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**1.3.3** Policies concerning the use of instruments for interest rate management.

- a. forward dealing  
The Council does not directly use forward dealing.
- b. callable deposits  
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 the CFO.

**1.4 Exchange Rate Risk Management**

The Council only lends/borrows in sterling.

**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 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 Performance Scrutiny Committee at the meeting immediately following its action.

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

The CFO 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.

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 and housing rent levels. 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).

#### **1.5.4 Capital Receipts Generated by the HRA**

##### **English housing authorities**

75% of capital receipts generated by Right To Buy and other dwelling sales will be pooled together with 50% of capital receipts from the sale of land without buildings (net of capital allowances), i.e. paid to the Secretary of State, with the exception of 'qualifying disposals' (e.g. large and small scale voluntary transfers of housing to social registered landlords).

#### **1.5.5 PFI, Partnerships, ALMOs and guarantees**

The Council has an Arms Length Management Organisation, Charnwood Neighbourhood Housing Ltd (CNH) which manages its housing stock. CNH is not financed by the Council and there are no refinancing implications etc that need to be considered.

### **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 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.

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:

- 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
- 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
  
- 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 CFO 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
- 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
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
  
- 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

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

The Council's powers to borrow and invest are contained in legislation as follows:

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 & Pools.

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

The CFO shall take appropriate action with the Council, the Chief Executive of the Council 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 Governance & Procurement; 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 CFO is the Chief Executive; 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.

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

The risk that an organisation 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 organisation 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 CFO or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

#### **Procedures**

- The Council currently uses HSBCNet for its electronic banking and this is a proprietary system owned and operated by the Council's main bank, HSBC Plc. All transactions require a division of duties with appropriate levels of staff compiling the transfer and senior staff then approve the transfer. CHAPS payments operate in a similar manner

#### **Investment and borrowing transactions**

- A detailed register of all loans and investments is maintained electronically in the Income section.
- 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 lender/borrower 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 broker for resolution.
- Contract notes for transactions carried out by the external fund manager(s) are retained by the fund managers and reported on monthly.

#### **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.
- No member of the treasury management team is an authorised signatory.
- Payments, where required, can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed by the CFO.
- The HSBCNet system can only be accessed by a password.
- There is adequate insurance cover for employees involved in loans management and accounting.
- Capital and interest withdrawals and capital injections in respect of monies managed by external fund managers can only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).



## **Checks**

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The electronic treasury records system balances are proved to the balance sheet ledger codes at the end of each quarter and at the financial year end.
- A debt charge/investment income listing is produced every quarter / year end when a review is undertaken against the budget for interest earnings and debt costs.
- The valuations and investment income statements received monthly from the Council's fund managers will be checked and retained for audit inspection. The authority will ensure that the external funds we invest in, are accounted for in accordance with proper accounting practices
- We have complied with the requirements of SORP (pre 1st April 2010 FRS 26) and IFRS Code (post 1st April 2010 IAS 39) and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Income and Expenditure Account

## **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 Income team.
- Interest and expense rates are used to calculate the principal, interest and debt management expense charges to the General Fund and the Housing Revenue Account recharge.

### **1.7.2. Emergency and Contingency Planning Arrangements**

#### **Disaster Recovery Plan.**

The Income section is subject to the Council's main Disaster Recovery Procedures and in addition a manual record of Treasury dealings is maintained. In the event of electronic systems not being available transactions could be carried out by telephone with fax confirmations.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

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 £4m for any one event with no excess of for any one event

#### **Business Interruption**

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

## **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.)**

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).

## TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

### 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)

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
UK Debt Management Office Deposit Facility	Government backed	In-house and Fund Manager
Term deposits – local authorities	High Security – not credit rated	In-house
Term deposits – banks and building societies	Short-term FI+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers (Maximum sum per counterparty is £5m)
Certificates of deposits issued by Banks and Building Societies	Short-term FI+, Long term AA, Individual B/C, Support 1/2	Fund Manager
UK Government Gilts	Long Term AAA	Fund Manager
Money Market Funds	Long term AAA	Fund Manager and In-house (Maximum limit of £3m in MMFs in house)
Bonds issued by multilateral development banks	Long term AAA	Fund Manager

Institutions will be removed from the list where there are doubts about their security. Any institution whose CDS rating is shown ‘Out of Range’ by Sector will be removed from the list. In addition, upper limits on deposits with any one institution will be reduced if there is the view that whilst they should not be removed from the list there are reasons to reduce the council’s exposure.

Since the credit crunch crisis there have been a number of developments which require separate consideration and approval for use: -

**Nationalised banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an FI+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

**Blanket guarantees on all deposits.** Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee. The use of such banks will depend on both their own rating and also their country’s sovereign rating. If the latter is not on the list then that bank would not be used, even if its own credit rating was sufficient.

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Banks nationalised by high credit rated (sovereign rating) countries	Short-term FI+, Long-term AA-, Individual C, Support 1/2	In-house and Fund Managers	<b>25% in house</b>	<b>3 months or as long as guarantee exists from Government (In house)</b>
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries	Sovereign rating AAA	In-house and Fund Managers	<b>25% in-house</b>	<b>3 months (in house)</b>
UK Government support to the banking sector**	Sovereign rating AAA	In-house and Fund Managers	<b>100%</b>	<b>364 days (in house)</b>

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

- Santander UK
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

**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.

**NON-SPECIFIED INVESTMENTS:** These are investments which do not meet the requirement of specified investments. They must all be sterling denominated with a maximum invested of £17.5m of council funds. Please note that the Fund Manager restricts sums lent to each name to 20% and average maturity shall not exceed three years.

### I. Maturities of up to three years

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits – banks and building societies	Short-term FI+, Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
Certificates of deposits issued by banks and building societies	Short-term FI+ Long-term AA, Individual B/C, Support 1/2	Fund Managers	50% restriction above 364 days	10 years
UK Government Gilts	AAA	Fund Managers	50% restriction above 364 days	10 years
Bonds issued by multilateral development banks	AAA or government guarantee	Fund Managers	50%	Not to exceed 10 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	Fund Managers	50% restriction above 364 days	Not to exceed 2 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	50%	Not to exceed 10 years
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>				
1. Bond Funds	Long-term AAA volatility rating	Fund Managers	50% restriction above 364 days	Open ended
2. Gilt Funds	Government backed and AAA	Fund Managers	50% restriction above 364 days	Open ended

# 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. quarterly reviews carried out by the treasury management team
- b. reviews with our treasury management consultants
- c. annual review after the end of the year as reported to full council
- d. half yearly other monitoring reports to full council
- e. quarterly monitoring to the Performance Scrutiny Committee

### 2.1.1 Periodic reviews during the financial year

The Head of Financial Services reviews actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include :

- a) Total debt including average rate and maturity profile
- b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

### 2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews 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

An Annual Treasury Outturn Report is submitted to the Performance Scrutiny each year after the close of the financial year which reviews the performance of the investment portfolio. This report contains the following: -

- a. 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, if relevant
- f. actual borrowing, if relevant, 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

Due to the size of the Treasury function comparative reviews are not currently used.

## 2.2 Benchmarks and Calculation Methodology:

### 2.2.1 Debt management

- . Average rate on all external debt

### 2.2.2 Investment.

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

- a. in house investments  
7 day LIBID compounded weekly
- b. cash fund manager

7 day LIBID compounded weekly  
The fund managers performance is also measured against other fund managers' performance.

## **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 a three year basis with the option to extend for one year. . The process for advertising and awarding contracts will be in line with the Council's Contract Compliance Rules.

### **2.3.2 Banking services**

The Council's banking arrangements are to be subject to competitive tender every three years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate. If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

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

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services.

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

The Council's policy is to appoint full-time professional treasury management consultants and, if required, leasing advisory consultants.

### **2.3.5 Policy on External Managers**

The Council's policy is to appoint full-time professional external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Sector Treasury Services Limited to assist in this respect.

# **TMP 3 DECISION-MAKING AND ANALYSIS**

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

### **3.1.1 Records to be kept**

The Treasury section has a computerised in-house spreadsheet system in which all investment and loan transactions are recorded.. The following records will be retained, either electronically or manually as appropriate: -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- 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
- Fund manager(s) valuation statements

### **3.1.2 Processes to be pursued**

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- 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 actuals against budget for debt charges, interest earned,;, 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.



**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.

**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;

## 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
- leasing.

### 4.2 Approved Instruments for Investments

These are included in the Council's Annual Investment Strategy, *the latest version of which is appended to this document.*

### 4.3 Approved Techniques

- 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:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts and revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

#### **Other Methods of Financing**

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

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 CFO 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 Annual Investment Strategy 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 and Prudential and Treasury Indicators.

## **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.

#### **(ii) Cabinet**

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices that fall outside the yearly and half yearly reports to council
- budget consideration and approval

#### Performance Scrutiny Committee

- Annual Treasury Outturn Report
- Quarterly Treasury Management Monitoring reports
- Scrutiny of Treasury Management performance

#### **(iii) Audit Committee**

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

#### V.Chief Financial Officer

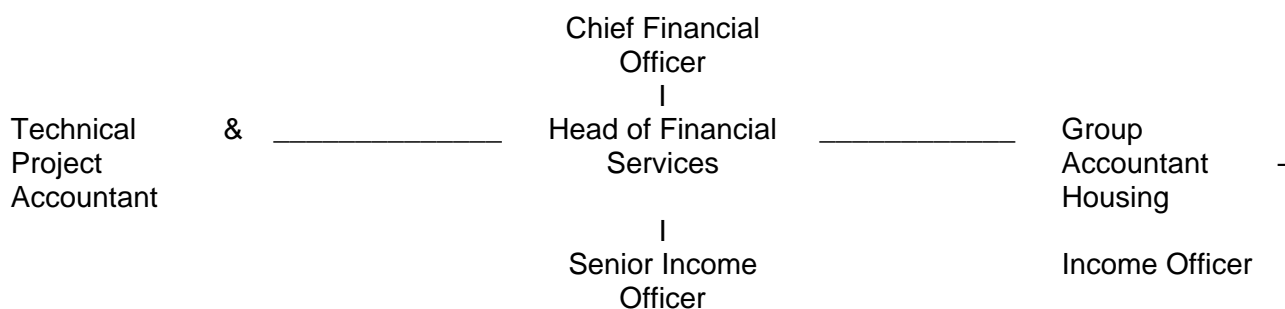
- Treasury Management Practices

### **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. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

### 5.3 Treasury Management Organisation Chart



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

#### 5.4.1. The Chief Financial Officer

The CFO is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Executive and is also the S151 Officer.) This person 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) agreeing the appointment of external service providers subject to the Council's Contract compliance rules
- g) The CFO 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.
- h) The CFO may delegate his power to borrow and invest to members of his staff. The Head of Financial Services, Group Accountant, Technical & Project Accountant, the Senior Income Officer and Income Officers must conduct all dealing transactions, or staff authorised by the CFO to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- i) The CFO 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.
- j) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the CFO to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- k) It is also the responsibility of the CFO 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. Head of Financial Services (HoFS)**

- a) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- b) Recommending the appointment of external service providers.
- c) Monitor adherence to agreed policies and practices on a day-to-day basis
- d) maintaining relationships with counterparties and external service providers
- e) supervising treasury management staff
- f) Prepare the Treasury Management Strategy, Annual Investment strategy etc
- g) Preparation of the annual budget for treasury management
- h) Ensure that staff receive the appropriate training
- i) Ensure that staff are aware of and comply 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.
- j) Approval of transmission of priority payments and transactions on electronic banking system
- k) Maintain procedure notes for the treasury management function
- l) submitting management information reports to the CFO
- m) identifying and recommending opportunities for improved practices

#### **5.4.3. Senior Income Officer**

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 day to day relationships with counterparties and external service providers
- d) monitoring performance on a day-to-day basis
- e) advise the HoFS on Treasury management matters
- f) monitor and report on the activities of fund managers
- g) maintain cash flow diary and other records
- h) check daily cash flow and agree dealing
- i) dealing and recording of deals
- j) check quarterly reconciliation
- k) daily update of bank accounts using electronic banking system
- l) preparation and transmission of priority payments and transactions on electronic banking system
- m) preparation of documentation to confirm deals for signature of approved signatories
- n) check receipt of treasury management funds
- o) The Senior Income Officer cannot deputise for the HoFS

#### **5.4.4 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 CFO reports regularly to the full Council, Cabinet and other committees on treasury policy, activity and performance.

#### **5.4.5. The Monitoring Officer, Director of Governance & Procurement**

The responsibilities of this post will be: -

- a) Ensuring compliance by the CFO 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 CFO when advice is sought.
- d) ensuring the adequacy of internal audit, and liaising with external audit

**5.4.6. Head of Performance and 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.

**5.4.7. Group Accountant - Housing, Technical & Project Accountant and Income Officer**

The responsibilities of these posts are to deputise for the HoFS and Senior Income Officer as indicated in the chart above.

**5.5 Absence Cover Arrangements**

See 5.4.7 above and the HoFS will deputise for the CFO, in the former's capacity as Deputy S.151 Officer.

**5.6 Dealing Limits**

Due to the small numbers of people involved there are no dealing limits for individuals.

**5.7 List of Approved Brokers**

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

## **5.8 Policy on Brokers' Services**

It is this Council's policy to use more than one broker.

## **5.9 Policy on Taping of Conversations**

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

## **5.10 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. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

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

## **5.11 Settlement Transmission Procedures**

This is carried out electronically.

## **5.12 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, as relevant.

## **5.13 Arrangements Concerning the Management of Third-Party Funds.**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.



## **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) Mid-year review
- 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 full Council for approval before the commencement of each Council 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.

### **6.3 The Annual Investment Strategy Statement**

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set 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
- 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) Use of a cash fund manager
- n) 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 each year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The CFO 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 CFO shall submit the changes for approval to the Cabinet.

### **6.6 Mid year review**

The Council will review its treasury management activities and strategy on a six monthly basis. 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.

## **6.7 Annual Review Report on Treasury Management Activity**

An annual report will be presented to the Performance scrutiny Committee 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 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 every quarter by the CFO and will be presented to the Performance Scrutiny Committee.

These reports will contain the following information: -

- a) a summary of transactions executed and their revenue 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.

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

The CFO 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. The HoFS will exercise effective controls over the Treasury management budget and monitoring of performance against Prudential and Treasury Indicators, and the CFO 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 internal 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.

## **TMP 8 Cash and Cash Flow Management**

### **8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

Cash flow projections are prepared annually based on the previous years' cash flow records, adjusted for 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 material 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 Control section in Accountancy..

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

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 30 days.

### **8.4 Arrangements for Monitoring Debtors / Creditors Levels**

The HoFS is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on a monthly basis to assist in updating the cash flow models.

### **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 cashiers section to deposit in the Council's banking accounts. The amounts so received are immaterial from a treasury viewpoint.

### **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 CFO.

# 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.

## 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 the Head of Performance & Audit

- 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 Director of Governance & Procurement 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 electronically for making deposits or repaying loans.

## **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 Professional 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 HoFS 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 Training Department will maintain records on all staff and the training they receive.

### **10.3 Statement of Professional Practice (SOPP)**

1. Where the Chief Financial Officer is a member of CIPFA, 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. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

### **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.



## **MP 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 HSBC Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is: Market Street, Loughborough.  
Tel: - 0845 878 873
- d) Contract commenced 1 April 2007 and runs for 3 years, with the potential to extend for a further two years until 1 April 2010.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments due monthly.

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

The Council will 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. The performance of brokers is reviewed by the Senior Income Officer every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the HoFS.

Broker currently used are:

- Tradition (UK) Ltd
- Martin Brokers (UK) Ltd.

Both operate under FSA Regulations

### **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 by the HoFS every year 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) A three year contract is currently out for tender.
- d) Cost of service is £10,000 per year.
- e) Payments due half yearly.

#### **Leasing Consultancy Services**

None at present

#### **External Fund Managers (if used)**

- a) Investec Asset Management Ltd
- b) Regulated by the FSA
- c) 2 Gresham Street, London, EC2V 7QP. Tel : 020 7597 2000
- d) The contract is due for renewal in 2010/11.
- e) Costs are around £28kper annum paid monthly.
- f) The fund guidelines, limits, benchmarks and targets agreed with the manager are contained in the investment management agreement.
- g) Valuations and performance data versus the benchmark are provided by the manager monthly. Fund performance review meetings are held annually.

Other Consultancy services may be employed on short term contracts as and when required.

### **11.1.4 Credit Rating Agency**

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

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

See TMP2

## **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 Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Treasury Review Report
- Treasury Management monitoring reports (e.g. half yearly, quarterly)

- Annual accounts and financial instruments disclosure notes
- Annual budget
- 3 Year Capital Plan

- Minutes of Council / Cabinet / committee meetings

## Approved Counterparties

Appendix 1

### CREDIT RATINGS

09/03/2010 16:25			Fitch Rating				Moody's Rating				S & P Rating		Suggested	Duration	CDS	WARNINGS!	Suggested
Institution	Group	Country	L Term	S Term	Indiv	Support	L Term	S Term	FSR		L Term	S Term	Duration	Watch/Outlook Adjusted	Status		Duration CDS Adjusted
NEW BLANK LINE - to copy for new entries																	
Santander UK plc	Santander	UK	AA-	F1+	B	1	Aa3	P-1	C-		AA	A-1+	Orange 12 months	Red 6 months	Monitoring	Column N shld be reduced by one sector	Green 3 months
Abbey National Treasury Services plc	Santander	UK	AA-	F1+			Aa3	P-1					Red 6 months	Red 6 months	No Date Available		Red 6 months
Bank of Scotland	Lloyds TSB (B of S)	UK	AA-	F1+	C	1	Aa3	P-1	D+		A+	A-1	Blue 12 months	Blue 12 months	Not Applicable		Blue 12 months
Lloyds TSB Bank plc	Lloyds TSB (B of S)	UK	AA-	F1+	C	1	Aa3	P-1	C-		A+	A-1	Blue 12 months	Blue 12 months	Not Applicable		Blue 12 months
Barclays Bank plc *	None	UK	AA-	F1+	B	1	Aa3	P-1	C		AA-	A-1+	Orange 12 months	Red 6 months	Monitoring	Column N shld be reduced by one sector	Green 3 months
Clydesdale Bank *	None	UK	AA-	F1+	C	1	A1	P-1	C-		A+	A-1	Green 3 months	Green 3 months	No Date Available		Green 3 months
Alliance & Leicester plc	Santander	UK	AA-	F1+	B	1	Aa3	P-1	E+		AA	A-1+	Red 6 months	Red 6 months	In Range		Red 6 months
HSBC Bank plc	None	UK	AA	F1+	B	1	Aa2	P-1	C+		AA	A-1+	Orange 12 months	Orange 12 months	In Range		Orange 12 months
Royal Bank of Scotland Group plc	None	UK	AA-	F1+	D/E	1	Aa3	P-1	C-		A+	A-1	Blue 12 months	Blue 12 months	Not Applicable		Blue 12 months
Debt Management Office	None	UK															
Local Authorities	None	UK											LA 12 months				LA 12 months

### Section 3 - SECTOR LIMITS - note, changing data on this table changes all limits on the spreadsheet (including validation)

WEF Jan 2010	PURPLE	ORANGE	RED	GREEN	BLUE	Local Auth	APPROVED 26/01/10
Lending Limits (see colour code)	4,500	4,500	4,000	1,500	5,000	2,000	
Institution Total	8,000	8,000	6,000	3,000	10,000	5,000	
Sector Total	24 months	12 months	6 months	3 months	12 months	12 months	
Maximum Period	24	12	6	3	12	12	
Maximum Period in months	728	364	182	91	364	364	
Maximum Period in days							

Blue - Nationalised or part nationalised financial institutions. 1 year maturity limit with the exception of Northern Rock which remains 3 months.

Royal Bank of Scotland - Maximum investment limit reduced to £2m wef 19/02/10 as per JC.