

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 22 SEPTEMBER 2010

Title of report	TREASURY MANAGEMENT ACTIVITY – APRIL TO AUGUST 2010 AND REVISED TREASURY MANAGEMENT PRACTICES
Contacts	<p>Councillor Nicholas Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Financial Planning Manager 01530 454707 pritesh.padaniya@nwleicestershire.gov.uk</p> <p>Technical Accountant 01530 454706 martin.wale@nwleicestershire.gov.uk</p>
Purpose of report	<p>To inform Members of the Council's cumulative Treasury Management activity undertaken during the period April to August 2010.</p> <p>To inform Members of the Council's revised Treasury Management Practices.</p>
Reason for Decision	<p>To ensure Members are informed of the Council's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.</p> <p>To give Members the opportunity to scrutinise the Council's revised Treasury Management Practices.</p>
Strategic aims	Organisational Development
<p>Implications:</p> <p>Financial/Staff</p> <p>Link to relevant CAT</p> <p>Risk Management</p> <p>Equalities Impact Assessment</p>	<p>Not applicable</p> <p>Could impact upon all CAT's.</p> <p>Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, adoption of and compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Consultants (Arlingclose) to proffer expert advice.</p> <p>Not applicable</p>

Human Rights	Not applicable
Transformational Government	Not applicable
Consultees	None
Background papers	The CIPFA Code of Practice on Treasury Management The Council's Treasury Management Strategy The Council's Borrowing and Debt Rescheduling Strategies The Council's Investment Policy and Strategy These documents are located in Room 35.
Recommendations	THAT MEMBERS NOTE THIS REPORT AND COMMENT AS APPROPRIATE. THAT MEMBERS APPROVE THE COUNCIL'S REVISED TREASURY MANAGEMENT PRACTICES.

1.0 BACKGROUND.

- 1.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is defined as “the management of the Council's cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”. This Council adopted the CIPFA Code on 2 July 2002, re-affirmed the adoption on 15 June 2009, and **complies with its requirements.**

The Council adopted a Treasury Management Policy Statement on 24 August 2004 and re-affirmed the adoption on 15 June 2009. **The Council's current Treasury Strategy, including the Annual Investment Strategy, Borrowing Strategy, Debt Rescheduling Strategy and Prudential Indicators were approved by Council on 30 March 2010.**

- 1.2 In March 2009 CIPFA released a Treasury Management Panel Bulletin on Treasury Management in Local Authorities – Post Icelandic Banks Collapse, providing interim advice to local authorities on treasury management practices in the light of the Icelandic banks collapse in 2008 and the continuing ‘credit crunch’. In order to enshrine best practice it is suggested that authorities report formally to Members on treasury management activities at least twice a year and preferably quarterly.
- 1.3 Financial year 2010/11 is the second year in which treasury management activity has been reported to Members during the year. In 2009/10 this activity was reported to the Corporate Governance Scrutiny Committee. This report is the first in-year report of 2010/11, to inform Members of the Council's treasury activity and enable scrutiny of the performance. It will supplement the annual Treasury Stewardship Report, which is presented to Cabinet as soon as possible after the end of each financial year.

2.0 TREASURY MANAGEMENT PRACTICES.

2.1 The CIPFA Code of Practice on Treasury Management in the public Services (the Code), requires the setting out of the responsibilities and duties of members and officers and creation of a framework for reporting and decision making on all aspects of treasury management. The Code recommends the creation and maintenance of suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

The revised Treasury Management Practices are shown at **APPENDIX A.**

3.0 SCOPE.

3.1 This report has been:

- (a) prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- (b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
- (c) gives details of the treasury management transactions for the period April to August 2010.
- (d) confirms compliance with treasury limits and Prudential Indicators.

4.0 THE ECONOMIC BACKGROUND.

- The UK continued to emerge from recession, with second estimate of Q2 2010 GDP registering growth of 1.2%. The recovery is as yet fragile.
- Consumer price inflation remained well above the Bank of England's 2% target, with a peak of 3.7% reached in April. Temporary effects are thought to lie behind the elevated rate and inflation is projected to decline further over the year due to downward pressure from spare capacity within the economy.

- The successful formation of a coalition government dispelled uncertainty surrounding a hung parliament result in May's General Election. The new Government's Emergency Budget laid out tough action to address the UK's budget deficit, aiming to eliminate the structural deficit by 2014/15. The level of spending cuts and tax increases looks sufficient to extinguish concerns about inflation expectations.
- The Bank of England's Monetary Policy Committee has maintained the Bank Rate at 0.5% and Quantitative Easing at £200bn.
- The US Federal Reserve kept rates on hold at 0.25% and the ECB maintained rates at 1%. The major ongoing worries in Europe extended from sovereign weakness in Portugal, Italy, Ireland, Greece and Spain, the exposure of the continent's banking sector to the sovereign and corporate debt of these nations and the risk of contagion extending to other countries.

5.0 THE COUNCIL'S TREASURY POSITION.

5.1 The Council's gross / net debt and investment positions as at 31 August 2010 are as follows:

DEBT	Balance at 01/4/2010 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 31/8/2010 £m	%
Long-term fixed rate	£15.440m	100	£0m	£0m	£0m	£15.440m	100
Long-term variable rate	£0m	0	£0m	£0m	£0m	£0m	0
Temporary Borrowing	£0m	0	£0m	£0m	£0m	£0m	0
Total borrowing	£15.440m	100	£0m	£0m	£0m	£15.440m	100
Other long-term liabilities	£0.185m					£0.185m	
TOTAL EXTERNAL DEBT	£15.625m					£15.625m	
INVESTMENTS	Balance at 01/4/2010 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/8/2010 £m	%
Internally Managed	£4.652m	100	£47.093m	£0m	£54.474m	£12.033m	100
Investments with maturities up to 1 year,	£4.652m	100	£47.093m	£0m	£54.474m	£12.033m	100
Investments with maturities in excess of 1 year	£0m	0	£0m	£0m	£0m	£0m	0
Externally Managed Investments	£0m	0	£0m	£0m	£0m	£0m	0
TOTAL INVESTMENTS	£4.652m		£47.093m	£0m	£54.474m	£12.033m	
NET DEBT	£10.973m					£3.592m	

5.2 Members will note the increase value of investments, and corresponding reduction in the Council's net debt during the period, of £7.381m. A number of factors brought about this situation.

- The Council traditionally benefits from receipt of major income streams (e.g. Council Tax & NNDR) during the first ten months of the financial year.
- The Council's traditional pattern of revenue expenditure is more evenly weighted throughout the financial year.
- The Council's expenditure of its capital programme is heavily weighted towards the latter part of the financial year because of the time required to schedule programmes of work and award contracts, which are paid upon completion.

- The above patterns of income and expenditure are reflected in the Council's cash flow projections, which are monitored and revised on a daily basis. The above position is forecast to unwind in the latter stages of the financial year and this is in line with our traditional experience.
- The cash flow benefits discussed above do present the Council with investment opportunities and this is reflected in the level and period of investments discussed at 8.3 below.

6.0 BORROWING ACTIVITY.

- 6.1 The Council's Borrowing Strategy, approved by Council on 30 March 2010, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
- 6.2 The Council's estimated borrowing requirement for the current financial year was a net repayment of £26k and for the two subsequent financial years is to repay £509k in 2011/12 and £992k in 2012/13.
- 6.3 No new long term loans were raised during the period. Additionally, no existing loans requiring replacement matured during the period.
- 6.4 The Council's cash flow remained mostly positive during the period. However, the Council did require five temporary overnight loans, totalling £2.72m at an average rate of 0.48%.

7.0 DEBT RESCHEDULING ACTIVITY.

- 7.1 The Council's policy on debt rescheduling, as approved by Council on 30 March 2010, is to maintain a flexible approach where the rationale for rescheduling could be one or more of the following:
- Savings in interest costs with minimal risk.
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

All rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

- 7.2 The Council undertook no debt rescheduling activity during the period.
- 7.3 The Council's portfolio of eight loans, four PWLB loans and four market loans, will continue to be monitored for debt rescheduling opportunities that comply with the Council's Policy and rationale.

8.0 INVESTMENT POLICY AND ACTIVITY.

8.1 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital; and,
- an optimum yield which is commensurate with security and liquidity.

The revised counterparty list, approved by Council on 30 March 2010 restricts new deposits to the following:

- the Debt Management Office
- Other local authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Banks / Building Societies which have, as a minimum, **all** of the following credit ratings

Fitch short term credit rating of F1+

Moody's short term credit rating of P-1

Standard & Poors short term credit rating of A-1+

AND / OR

UK incorporated institutions who can participate in the UK Government 2008 Credit Guarantee Scheme (CGS).

The CGS was announced in October 2008 to stabilise the UK banking system and provide solvency support for the "systemically critical" banking institutions in the UK. The government's CGS is not an explicit guarantee for deposits but it is the main platform to maintain the solvency of institutions critical to the UK's financial stability.

Whilst strengthening still further the previous counterparty credit quality requirements, the revised investment criteria further reduced the number of banks and building societies with which the Council can now place its investments.

8.2 The Council invested average daily cash balances of £9.08m during the period. These represent working cash balances / capital receipts and the Council's reserves. Their security is the overriding feature of the Council's treasury management activities. The investment returns generated from those balances are important since they make a significant contribution to the Council's overall financial position.

8.3 There were 113 investments during the period, totalling £54.474m, of which the following contributed most to the overall rate of return.

PRINCIPAL	PERIOD	RATE	COUNTERPARTY
£5M	1/4/2010-30/3/2011	1.7%	NATIONWIDE B.S.
£3M	8/6/2010-8/3/2011	1.5%	LLOYDS TSB
£2m	23/8/2010-3/2/2011	1.2%	LLOYDS TSB
TOTAL - £10m	WEIGHTED AVERAGE RATE	1.54%	

The remaining investments were placed in call account facilities with the Alliance & Leicester Commercial Bank and Bank of Scotland. Both accounts provide for daily deposits / withdrawals at competitive interest rates, whilst incurring virtually no administration costs.

- 8.4 **The average rate of return on the Council's investment balances during the period was 1.5%.** For comparison purposes, the benchmark return (average 7-day BID/BOR rate) for the same period was 0.49%.

All investments made during the quarter complied with the council's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits.

All maturing investments were repaid to the council on the due date and in full, including interest.

9.0 COMPLIANCE WITH TREASURY LIMITS AND TREASURY-RELATED PRUDENTIAL CODE INDICATORS.

- 9.1 The Council at its meeting on 30 March 2010 approved the Prudential Indicators for 2010/11. These are set out and described below.

(a) **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved Treasury Policy and Strategy and also provides headroom over and above for unusual cash movements. **This limit was approved at £19.5m for 2010/11.**

(b) **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and is based on the Authorised Limit excluding the headroom for unusual cash movements. **For 2010/11 the limit was approved at £17.5 m.**

The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. **The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was £16.575m.**

(c) Upper Limits for Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<u>Estimated %</u>	<u>Actual %</u>
Upper Limit for Fixed Rate exposure	100%	100%
Upper Limit for Variable Rate exposure	50%	0%

(d) Maturity Structure of Fixed Rate borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper limit %	Lower limit %	Actual Borrowing as at 31/8/2010 £	Percentage of total as at 31/8/2010 %
under 12 months	50%	0%	£0	0%
12 months and within 24 months	50%	0%	£0	0%
24 months and within 5 years	60%	0%	£1m	6%
5 years and within 10 years	80%	0%	£0	0%
10 years and within 20 years	100%	0%	£1m	6%
20 years and within 30 years	100%	0%	£0	0%
30 years and within 40 years	100%	0%	£0	0%
40 years and within 50 years	100%	0%	£0	0%
50 years and above	100%	0%	£13.44m	88%

(e) Total principal sums invested for periods longer than 364 days

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. **For 2010-11 this limit was approved at £4m. During the period the Council undertook no investments for longer than 364 days.**

TREASURY MANAGEMENT PRACTICES

Revised August 2010

TMP 1: RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Corporate Director 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 as schedules below.

Credit and Counterparty Risk Management: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

Principle: The Council 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.

Schedule:

Counterparty list and limits	A full individual listing of counterparties based on the approved criteria will be maintained. As credit ratings are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis.
Details of credit rating agencies' services and their application	The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.

<p>Criteria to be used for creating/managing approved counterparty lists/limits</p>	<p>The Corporate Director is responsible for setting a prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by Full Council.</p> <p>The current counterparty list, approved by Council on 30 March 2010 restricts new deposits to the following:</p> <ul style="list-style-type: none"> • the Debt Management Office • Other local authorities • AAA-rated Stable Net Asset Value Money Market Funds • Banks / Building Societies which have, as a minimum, all of the following credit ratings <p style="text-align: center;">Fitch short term credit rating of F1+ Moody's short term credit rating of P-1 Standard & Poors short term credit rating of A-1+</p> <p style="text-align: center;">AND / OR</p> <p style="text-align: center;">UK incorporated institutions who can participate in the UK Government 2008 Credit Guarantee Scheme (CGS).</p> <p>The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties</p>
<p>Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment</p>	<p>The Council's treasury advisor provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.</p> <p>In addition, the Technical Accountant reads quality financial press for information on counterparties.</p>

Liquidity Risk Management: Liquidity risk 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 Council's business/service objectives will be thereby compromised.

Principle : The Corporate Director will ensure the Council 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.

The Council 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 fund future debt maturities.

Schedule:

Cash flow and cash Balances	<p>The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a 12-month cash flow forecast.</p> <p>The Technical Accountant shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.</p>
Short term investments	<p>The Council also uses various bank call accounts to manage its liquidity requirements These accounts are with banks named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.</p>
Temporary Borrowing	<p>Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any time during the year.</p> <p>At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.</p>
Bank Overdraft and standby facilities	<p>The Council has an authorised overdraft limit with its bankers of £300,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult.</p>

Interest Rate Risk Management: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

Principle: The Council 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.**

Schedule:

Minimum/ maximum proportions of fixed/variable rate debt/interest	<p>Borrowing / investments may be at a fixed or variable rate.</p> <p>The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual Treasury Strategy process.</p> <p>In setting its Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets and, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates, and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The Council 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.</p>
Managing changes to interest rate levels	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Technical Accountant.</p> <p>For its investments, the Council also considers dealing from forward periods, dependant upon market conditions.</p>
Details of approved interest rate exposure limits	<p>As per the Council's prudential indicators, the upper limit for variable interest rate investments as a proportion of total investments is 50 %.</p> <p>In terms of long term borrowing, the Council can have no more than 50 % in variable interest rate borrowings.</p>

Exchange Rate Risk Management: The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

Exchange rate risk management	<p>This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.</p> <p>If the Council has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered, with professional advice.</p> <p>At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has also determined that all its investments will be in Sterling.</p>
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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 refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. 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 over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:

Projected capital investment requirements	<p>Three year projections are in place for capital expenditure and it's financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.</p> <p>As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.</p> <p>The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.</p>
Debt profiling, policies and practices	<p>Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.</p> <p>The Council will maintain through its treasury system reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its re-financings.</p> <p>Where the lender to the Council is a commercial body, the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p>

Policy concerning limits on revenue consequences of capital financings	The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.
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Legal and Regulatory Risk Management: The risk that the Council itself, or a third party 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 Council suffers losses accordingly.

Principle: The Council 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 Council, particularly with regard to duty of care and fees charged.

The Council 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.

Schedule:

<p>References to relevant statutes and regulations</p>	<p>The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:</p> <ul style="list-style-type: none">▪ CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments▪ CIPFA Standard of Professional Practice on Treasury Management▪ The Local Government Act 2003▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments▪ The CLG's statutory Guidance on Minimum Revenue Provision (MRP)▪ amendments▪ The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883▪ LAAP Bulletins▪ SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice▪ Accounts and Audit Regulations 2003, as amended together with CLG's Guidance▪ The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.▪ Council's Constitution including:-<ul style="list-style-type: none">○ Standing Order relating to Contracts○ Financial Regulations○ Scheme of Delegation
<p>Procedures for evidencing the organisation's powers/ authorities to counterparties</p>	<p>The Council's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Cabinet.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>

Statement on political risks and management of the same	<p>Political risk is managed by:</p> <ul style="list-style-type: none"> • adoption of the CIPFA Treasury Management Code of Practice • adherence to Corporate Governance (TMP 12 – Corporate Governance) • adherence to the Statement of Professional Practice by the Corporate Director • the role of the Governance Scrutiny Committee.
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Fraud, Error and Corruption, and Contingency Management: This is 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 referred to as operational risk.

Principle: The 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.

Schedule:

Details of systems and procedures to be followed, including Internet services	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.</p> <p>1. <u>Electronic Banking and Dealing</u></p> <p>(a) <u>Banking</u>: The Council's online banking service provided by the Co-operative Bank is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows:</p> <ul style="list-style-type: none">• Corporate Director• Head of Legal and Democratic Services• Financial Planning Manager• Technical Accountant• Accountants (2)• Senior Exchequer Services Officer <p>Officer access is reviewed at least 6 monthly or as necessary.</p> <p>Full procedure notes covering the day to day operation of the on-line banking system and the treasury management system are documented and included in the Treasury Management Procedure Notes.</p> <p>2. <u>Standard Settlement Instructions (SSI)</u> list : a list is maintained of named officers who have the authority to transact loans and investments</p> <ul style="list-style-type: none">• Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list, upon request.• A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF. <p>3. <u>Payment Authorisation</u> :</p> <ul style="list-style-type: none">• Payments can only be authorised by an agreed cheque signatory(ies) of the Council, the list of signatories having previously been agreed with the Council's bank.• Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts. <p>Separate officers will carry out (a) dealing / recording of transactions and disbursements and (b) authorising the same.</p>
Verification	<p>Loans and investments will be maintained in a register which will include fees and brokerage paid.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p>
Substantiation	<p>1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end.</p> <p>2. Working papers are retained for audit inspection.</p> <p>3. The bank reconciliation is carried out daily from the bank statement to the financial ledger.</p>

Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.
Contingency Management	<ol style="list-style-type: none"> 1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the ICT department to restore files, if necessary. 2. Electronic Banking System Failure: In the event of such a failure, procedures are in place to permit the Technical Accountant to manually obtain the data and effect CHAPS payments by means of a fax signed by an authorised signatory. 3. The Council's Business Recovery Plan is maintained by the Civil Contingencies and Risk Officer and printed copies are retained in a secure location.
Insurance Cover details	The Council has Fidelity Guarantee insurance cover. Details of the provider and cover are held by the Technical Accountant.

Market Risk Management: This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle: This Council 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.

Schedule:

Accounting for unrealised gains/losses	The method of accounting for unrealised gains or losses on the valuation of financial assets comply with Accounting Code of Practice.
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TMP 2: PERFORMANCE MEASUREMENT

Principle: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its annual Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

Schedule:

<p>Policy concerning methods for testing value for money</p>	<p>Service reviews will include the production of plans to review the way services are provided by</p> <ul style="list-style-type: none">▪ Challenging▪ Comparing performance▪ Consulting with other users and interested parties▪ Applying competition principles <p>in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p>
<p>Policy concerning methods for performance measurement</p>	<ul style="list-style-type: none">• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators, and to enhance accountability.• Prudential Indicators are local to the Council and are not intended as a comparator between authorities.• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis. <p>Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to</p> <ul style="list-style-type: none">• allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and• permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. <p>In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>
<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>The year-end Annual Treasury Stewardship Report will include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Council is a member of the Arlingclose benchmarking club. The club enables comparison of performance with other authorities for its investment activity. Data is provided to the Council quarterly for comparison.</p> <p>The Council's treasury management advisers review the existing debt portfolio and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.</p>

<p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p>	<p>Treasury management activity is reviewed quarterly against strategy and prevailing economic and market conditions through the Treasury Management Scrutiny reports to the Corporate Governance Committee.</p> <p>The report will include:</p> <ol style="list-style-type: none"> a) The effect of new borrowing and/or maturities on the above b) The effect of any debt restructuring on the debt portfolio c) Total investments including average rate, credit and maturity profile d) The effect of new investments/redemptions/maturities on the above e) The rate of return on investments against their indices for internally and externally managed funds <p>A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.</p>
<p>Benchmarks and calculation methodology with regard to risk and return</p>	<p>Investment returns are compared to the benchmark rate - 7-day Libid.</p> <ul style="list-style-type: none"> • Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. <p>Debt Management</p> <ul style="list-style-type: none"> ▪ Average Rate on external debt borrowed in financial year ▪ Average Rate on internal borrowing <p>Average period to maturity of new loans in financial year</p>
<p>Best value</p>	<p>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.</p>

TMP 3: DECISION-MAKING AND ANALYSIS

Principle: The Council will maintain full records of its treasury management decisions. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule:

Major treasury decisions	<p>As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either :</p> <ul style="list-style-type: none"> a) Changes to Prudential Indicator(s) during the course of the financial year b) Options Appraisal to determine a funding decision c) raising a new long-term loan / long-term source of finance d) prematurely restructuring/redeeming an existing long-term loan(s) e) leasing f) change in banking arrangements g) appointing/replacing a treasury advisor h) any other determined by the Council
Process	<p>The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>Based on the annual Treasury Management Strategy, the Technical Accountant will prepare monthly for the ensuing 12 months rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of :</p> <ul style="list-style-type: none"> • applying the Strategy on a day to day basis • monitoring the results of the Strategy • recommending amendments to the Strategy to Cabinet where applicable during the course of the year.
Delegated powers for treasury management	<p>The Corporate Director has delegated powers to carry out the Council's Strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.</p>

<p>Issues to be addressed, evaluation, authorisation</p>	<p>In exercising these powers, the Corporate Director and those to whom the treasury activity have been delegated will</p> <ul style="list-style-type: none"> • have regard to the nature and extent of any associated risks to which the Council may become exposed; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; • follow best practice in implementing the treasury transaction. <p>In exercising borrowing and funding decisions, the Corporate Director will :</p> <ul style="list-style-type: none"> • evaluate economic and market factors that may influence the manner and timing of any decision to fund; • consider alternative forms of funding, including use of revenue resources, leasing and private partnerships; • consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; • consider ongoing revenue liabilities created. <p>In exercising investment decisions, the Corporate Director will :</p> <ul style="list-style-type: none"> • Determine that the investment is within the Council's Investment Strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; • consider the alternative investment products and techniques available if appropriate.
<p>Processes to be followed</p>	<p>The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.</p>

Evidence and records to be kept	<p>The Council will maintain a record of all major treasury management decisions. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>Records and working papers will be maintained by the Council electronically, and /or in relevant files.</p>
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TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 - Risk Management**.

Schedule:

Approved treasury management activities	<p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> ▪ Managing cash flow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities. <p>The above list is not finite and the Council will, from time to time, consider and determine new financial instruments and treasury management techniques. However, the Council will also consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
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<p>Approved capital financing methods and types/sources of funding</p>	<p><u>On balance sheet</u></p> <ul style="list-style-type: none"> • Public Works Loans Board (PWLB) loans • long term money market loans including LOBO's • temporary money market loans (up to 364 days). • bank overdraft • Finance Leases • Government and EU Capital Grants • Lottery monies • Other Capital Grants and Contributions <p><u>Internal Resources</u></p> <ul style="list-style-type: none"> • Capital receipts • Revenue balances • Use of Reserves <p><u>Off balance sheet</u></p> <ul style="list-style-type: none"> ▪ Operating leases <p>The level of debt will be consistent with the Council's Treasury Management Strategy and the Prudential Indicators.</p>
<p>Approved investment instruments</p>	<p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will determine through the AIS which instruments will be used in-house including the maximum exposure. Where applicable, the Council's credit criteria will also apply.</p>

TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Corporate Director will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Corporate Director will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Corporate Director will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Corporate Director will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Corporate Director, in respect of treasury management, are set out in the schedule below. The Corporate Director will fulfil all such responsibilities in accordance with the organisation’s policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:

<p>Limits to responsibilities at Executive levels</p>	<p>Full Council :</p> <ul style="list-style-type: none"> • receiving and reviewing Prudential Indicators as part of the budget setting process (following receipt by Cabinet/Executive) • approval of the annual Treasury Strategy <p>The Cabinet:</p> <ul style="list-style-type: none"> • approval of amendments to adopted clauses, treasury management policy statement and treasury management practices • budget consideration and approval • receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Corporate Scrutiny Committee) • receiving and reviewing external audit reports and acting on recommendations <p>The Corporate Scrutiny Committee</p> <ul style="list-style-type: none"> • receiving, reviewing and monitoring the treasury activity including the Prudential Indicators
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<p>Principles and practices concerning segregation of duties</p>	<p>The segregation of duties will be determined by Corporate Director.</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> • the officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer(s) with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations. • the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments • all borrowing/investments decisions must be authorised by the Corporate Director. <p>Additionally, The Council receives bank statements on a daily basis. These are posted independent of the treasury function in order to maintain an adequate separation of duties.</p>
<p>Statement of duties/ responsibilities of each treasury post</p>	<p>The Corporate Director:</p> <ul style="list-style-type: none"> • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting best value reviews • 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 • determining long-term capital financing and investment decisions. • The Corporate Director has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. • The Corporate Director may delegate his power to borrow and invest to the Technical Accountant.

	<p>Technical Accountant.</p> <ul style="list-style-type: none"> • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices. • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • recording/ reconciling counterparty documentation.
Absence cover arrangements	<p>Cover in the absence of the Technical Accountant is provided by:</p> <ul style="list-style-type: none"> • the Financial Planning Manager and Accountants (2) <p>Cover is reviewed as necessary.</p> <p>Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.</p>

Dealing

Authorised officers	<p>Responsible officer for borrowing/investment decisions :</p> <p>Borrowing activity: Corporate Director</p> <p>Lending activity : Corporate Director</p> <p>Authorising payments for borrowing/lending : Corporate Director</p> <p>Transaction recording : Technical Accountant</p>
Dealing limits	<p>Internally Managed Investments:</p> <ul style="list-style-type: none"> • the maximum for any one investment deal is £5 million (subject to the lending limits detailed in the Council's Annual Investment Strategy.)
List of approved brokers	<p>Brokers used by the Council are named in TMP 11 : External Service Providers</p>
Policy on brokers' services	<p>It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.</p>

Direct dealing practices	<p>Direct dealing is carried out with institutions identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits.</p> <p>Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.</p>
Deal Ticket proforma	<p>Deals will be recorded as per the deal ticket proforma (proforma maintained at operational level)</p>
Settlement transmission procedures	<ul style="list-style-type: none"> • settlements are made via CHAPS • all CHAPS payments relating to settlement transactions require authorisation by an authorising officer. • all CHAPS payments require 1 bank signature • the details are transmitted electronically to the Council's bankers.
Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.</p> <p>Investments</p> <ul style="list-style-type: none"> • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Chaps payment transmission document <p>Loans:</p> <ul style="list-style-type: none"> • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Corporate Scrutiny Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual Treasury Stewardship Report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Corporate Scrutiny Committee will receive regular monitoring reports on treasury management activities and risks and will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are outlined below.

Schedule:

<p>Frequency of executive reporting requirements</p>	<p>The Corporate Director will annually submit budgets and will report on budget variations as appropriate.</p> <p>The Corporate Director will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Full Council, before the start of the year.</p> <p>The Annual Treasury Stewardship Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.</p> <p>In-year Treasury Scrutiny Reports will be prepared by the Technical Accountant, which will report on treasury management activities during the financial year.</p> <p>All of the above reports will also be submitted to Corporate Scrutiny Committee, who will be responsible for the scrutiny of treasury management policies and practices.</p>
<p>Content of Reporting : 1. Prudential Indicators</p>	<p>The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of :</p> <ul style="list-style-type: none"> ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Incremental impact of capital financing decisions (estimate) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt ▪ Upper limits on fixed and variable rate interest exposures ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. <p>The Prudential Indicators are approved and revised by the Cabinet and are integrated into the Council’s overall financial planning and budget process.</p>

<p>2. Treasury Strategy Statement including the Annual Investment Strategy</p>	<p>The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> • Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years • Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy for the forthcoming year • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. <p>*Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out</p> <ul style="list-style-type: none"> ▪ the objectives, policies and strategy for managing its investments; ▪ the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances; ▪ the limits for the use of Non-Specified Investments. <p>The AIS will be integrated into the Treasury Strategy Statement.</p> <p>The Corporate Scrutiny Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>3. Annual Treasury Report</p>	<p>The Corporate Director will produce an annual Treasury Stewardship report to the Cabinet on all activities of the treasury management function as soon as practicable after the year end.</p> <p>The main contents of the report will comprise :</p> <ul style="list-style-type: none"> ▪ the prevailing economic environment ▪ a commentary on treasury operations for the year, including their revenue effects; ▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council ▪ compliance with agreed policies/practices and statutory/regulatory requirements ▪ compliance with Prudential Indicators; ▪ performance measures. <p>The Corporate Scrutiny Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>

<p>4. In-Year Treasury Report</p>	<p>The Corporate Director will produce in-year reports for Corporate Scrutiny Committee on the borrowing and investment activities of the treasury management function.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> • Economic background • Economic forecast (including interest rates forecast) • Treasury Management Strategy Statement update • Performance versus benchmarks • Borrowing information (including premature repayment, new loans information) • Information on investments, including current lending list • Prudential indicators relating to treasury management • Governance framework and scrutiny arrangements
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TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle : The Corporate Director will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk Management, TMP2 - Performance Measurement, and TMP4 - Approved Instruments, Methods and Techniques.**

The Corporate Director will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 - Reporting Requirements and Management Information Arrangements.**

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

<p>Statutory/regulatory requirements</p>	<p>Balanced Budget Requirement : The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:, (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and (b) revenue costs which flow from capital financing decisions.</p> <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
<p>Proper accounting practice</p>	<p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".</p>
<p>Financial Statements</p>	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none"> ▪ An explanatory foreword ▪ Accounting policies, changes in accounting estimates and errors ▪ Presentation of financial statements ▪ Movement in reserves statement ▪ Comprehensive income and expenditure statement ▪ Balance sheet ▪ Cash flow statement ▪ Housing revenue account ▪ Collection Fund (England) ▪ Statement of Responsibilities ▪ The Accounting Statements ▪ Additional Financial Statements (Housing Revenue Account, Collection Fund) ▪ Notes to the financial statements ▪ Statements reporting reviews of internal controls or internal financial controls ▪ Events after the reporting period ▪ Related party disclosures
<p>Format of the Council's accounts</p>	<p>The current form of the Council's accounts is available within the Corporate Directorate.</p>
<p>Disclosures relating to treasury management</p>	<p>Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.</p>

<p>Treasury-related information requirements of external auditors</p>	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.</p> <p>Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.</p> <ul style="list-style-type: none"> ▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003. ▪ Prudential Indicators. ▪ Treasury Management Strategy including Annual Investment Strategy. <p><u>External borrowing:</u></p> <ul style="list-style-type: none"> • New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments) • Loan maturities. • Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years. • Analysis of loans outstanding at year end including maturity analysis. • Analysis of borrowing between long- and short-term • Debt management and financing costs <ul style="list-style-type: none"> ▪ calculation of (i) interest paid (ii) accrued interest ▪ interest paid • MRP calculation and analysis of movement in the CFR. • Bank overdraft position. • Brokerage/commissions/transaction related costs.
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	<p><u>Investments:</u></p> <ul style="list-style-type: none"> • Investment transactions during the year including any transaction-related costs • cash and bank balances at year end • Short-term investments at year end • Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end • calculation of (i) interest received (ii) accrued interest • actual interest received • External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any) • Basis of valuation of investments • Evidence of existence and title to investments (e.g. Custodian’s Reports; FRAG-21 report from Custodian. Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
	<p><u>Cash Flow</u></p> <ul style="list-style-type: none"> ▪ Reconciliation of the movement in cash to the movement in net debt ▪ Cash inflows and outflows (in respect of long-term financing) ▪ Cash inflows and outflows (in respect of purchase/sale of long-term investments) ▪ Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources
Internal Audit	<p>Internal Audit conducts an annual review of the treasury management function and probity testing.</p> <p>The internal auditors will be given access to treasury management information/documentation as required by them.</p>
Compliance with CIPFA Treasury Management and Prudential Codes	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code’s recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
Costs for treasury management	<p>The budget for treasury management forms part of the Financial Planning budget.</p>

TMP 8: CASH AND CASH FLOW MANAGEMENT

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Corporate Director and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Technical Accountant will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 - Liquidity Risk Management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:

Arrangements for preparing /submitting cash flow statements	<p>Cash flow forecasts will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>A detailed annual cash flow is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a daily basis. It identifies the major inflows and outflows on a daily basis.</p> <p>It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years.</p> <p>Daily cash flows show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments.</p>
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Content and frequency of cash flow projections

The detailed annual cash flow model includes the following:

- revenue income and expenditure based on the budget.
- profiled capital income and expenditure as per the capital programme.

Revenue activities :

Inflows :

- Revenue Support Grant
- Precepts received
- Non domestic rates receipts
- NNDR receipts from national pool
- Council tax receipts
- Housing subsidy
- DSS / other government grants
- Cash for goods and services
- Other operating cash receipts

Outflows :

- Salaries and payments on behalf of employees
- Operating cash payments
- Housing Benefit paid
- Precepts paid
- NNDR payments to national pool
- Payments to the capital receipts pool

Capital activities including financing

Inflows :

- Capital grants received
- Sale of fixed assets
- Other capital cash receipts

Outflows :

- Purchase of fixed assets
- Purchase of long-term investments
- Other capital cash payments

Financing, Servicing of Finance>Returns on Investments

Inflows

- New long-term loans raised
- New short-term loans raised
- Interest received
- Discount on premature repayment of loan

Outflows :

- Loan repayments
- Premia on premature repayment of loan
- Short-term investments
- Capital element of finance lease rental payments
- Interest paid
- Interest element of finance lease rental payments

Monitoring, frequency of cash flow updates	<p>The annual cash flow statement is updated daily with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with :</p> <ul style="list-style-type: none"> • net RSG and NNDR payments as notified; • county council, parish, fire authority and police authority precepts as notified; • actual salaries and other employee costs paid from account bank statements; • actual payments to Inland Revenue from general account bank statements; • actual council tax received • actual rent allowances paid actual housing benefit and housing subsidy grant received from CLG; • actual council house rent cash received actual capital programme expenditure and receipts.
Bank statements procedures	<p>The Council receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a daily basis.</p>
Payment scheduling	<p>The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> • payment within 10 days – 50% • payment within 15 days – 80% • payment within 30 days – 98.5%
Banking of funds	<p>Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the Exchequer Services Section are banked on alternate days.</p> <p>The Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the specific insurance limits.</p>

TMP 9: MONEY LAUNDERING

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering 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.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were 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 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle : The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule:

Anti money laundering policy	This Council’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
Nomination of Responsible Officer(s)	<p>(a) The Council has nominated the Corporate Director to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated.</p> <p>(b) The responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>

<p>Procedures for establishing the Identity of Lenders and Borrowers</p>	<ul style="list-style-type: none"> (a) The Council will not accept loans from individuals. (If the Council has, in the past, accepted loans from individuals, then this clause should be altered to read that the Council will maintain procedures for verifying and recording the identity of the individuals from whom such loans have been accepted.) (b) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list. (c) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk. (d) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement. (e) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed. (f) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.
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TMP 10: TRAINING AND QUALIFICATIONS

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Corporate Director will recommend and implement the necessary arrangements.

The Corporate Director will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule:

Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are (examples below): <ul style="list-style-type: none">▪ Certificate in International Treasury Management – Public Finance (this is the new CIPFA TM qualification run by the Association of Corporate Treasurers)▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF▪ Any courses/seminars run by Treasury Management Consultants.▪ Attending CIPFA Conference▪ Training attended by those responsible for scrutiny of the treasury function
Records of training received by treasury staff	Treasury-related training records are maintained.
Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Corporate Director and details of the current arrangements are set out in the schedule below.

Schedule:

<p>Details of service providers and procedures and frequency for tendering services</p>	<p>(a) Bankers to the Council: Co-operative Bank PLC Market Place, Leicester Contract period : March 2008 to March 2011 Formal agreement in place : yes This service will be re-tendered every three years</p> <p>(b) Treasury advisor Arlingclose 60 Moorgate, London EC2R 6EL Contract period : October 2008 to October 2011 Formal agreement in place : yes/no This service will be re-tendered every three years</p> <p>(c) Brokers: It is considered good practice for the Council to have at least two brokers and to spread business between them. Sterling Brokers Formal agreement in place : no</p> <p>Tullett Prebon Formal agreement in place : no</p>
<p>Regulatory status of services provided</p>	<p>The Council's external service providers are listed below, along with their regulatory status:</p> <ul style="list-style-type: none"> • Bankers to the Council – regulated by FSA • Treasury Adviser – regulated by FSA • Broker 1 – regulated by FSA • Broker 2 – regulated by FSA

TMP 12: CORPORATE GOVERNANCE

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and Corporate Director will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

<p>Stewardship responsibilities</p>	<p>The Corporate Director ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.</p>
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<p>List of documents to be made available for public inspection.</p>	<p>The following documents are freely available for public inspection:</p> <p>Examples</p> <ul style="list-style-type: none">▪ Annual Statement of Accounts▪ The Council's Annual Budget▪ 3 Year Capital Plan▪ Treasury Management Policy▪ Treasury Management Strategy▪ Budget Monitoring Reports▪ Annual Treasury Report
<p>Council's website.</p>	<p>Financial information is additionally available on the Council's website.</p>