

Key Decision Required:	NO	In the Forward Plan:	NO
-------------------------------	-----------	-----------------------------	-----------

**CABINET
24 APRIL 2015**

REPORT OF THE FINANCE AND TRANSFORMATION PORTFOLIO HOLDER

A.5 TREASURY MANAGEMENT PRACTICES - RATINGS AND OTHER CHANGES

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek Cabinet's agreement to changes to Treasury Management Practices, primarily as a result of the way two credit rating agencies assess risk relating to support for banks.

EXECUTIVE SUMMARY

- This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, as part of the risk based approach taken to determine where to place the Council's investments.
- Fitch and Moodys are changing their approach to providing ratings, to remove the implied level of sovereign support that has been built into their ratings through the financial crisis. This does not, however, reflect any changes in the underlying status of an institution.
- The result of the change in approach means that the Council's Treasury Advisors are advising us to focus our monitoring of ratings on purely the Long Term and Short Term ratings and to no longer include the Viability and Support (Fitch) and Financial Strength (Moody's) ratings.
- Therefore, it is proposed that the credit checking element of our approach to where we place investments will focus on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will also continue to support the assessment where it relates to these categories. The last page of the attached Treasury Management Practices set out the proposed changes in more detail.

This has an impact on our counterparty list and means that a number of institutions will be added, although the underlying acceptable minimum credit rating requirements set out in the wider TMP's remain unchanged

- The opportunity to provide a general update to the TMP's has also been taken with changes such as Job titles and references to the Council's current account bankers being reflected in the revised document that is attached.

RECOMMENDATIONS

That Cabinet:

- a. **Approves the proposed change in use of ratings, driven by the changes from the ratings agencies with only the short term and long term ratings from the three rating agencies used when determining the credit risk associated with**

the Council's investment decisions.

- b. That subject to a) above, approves the revised Treasury Management Practices as attached, which also includes a number of general changes to reflect the most up to date information.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The adoption of the changes will ensure that the Council's Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Treasury Management Strategies and procedures aim to ensure that the Council's investments and borrowing is undertaken in such a way as to minimise the Council's exposure to risk. At the same time they aim to maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk.

Risk

The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.

LEGAL

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving a change to TMPs based on the requirements of the relevant and updated codes, the Council is complying with the regulations.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors when considering credit risk as part of determining where to place the Council's investments. In determining the overall credit risk of a counterparty, the Council sets out its minimum acceptable limits within its Treasury Management Practices (TMP's) which includes the amount invested and the period of the investment. Counterparties rated by only one agency are not used. This approach is undertaken within a high level approach that is set out in the Council's Treasury Management Policy Statement that forms part of the TMP's.

The main rating agencies have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". The actual timing of these changes is still subject to confirmation by

the rating's agencies but the Council's treasury advisors have recommended that it would be appropriate to reflect the changes now, which will have no direct / significant impact on the level of risk the Council is prepared to accept when it places its investments.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation by using these Support ratings.

As a result of these rating agency changes, it is proposed that the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. External information such as Rating Watch and Outlook bulletins will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings.

The above changes will increase the Council's counterparty list with a limited number of additional financial institutions being available for placing investments. It is important to stress that the Council's other credit rating requirements within the TMP's remain unchanged and are based on robust minimum levels against the Long Term and Short term credit ratings provided by the three rating agencies when determining where to place investments.

For completeness and to provide the necessary context against which the above changes are being made, the revised Treasury Management Practices are attached, which also include some timely updates such as job titles etc.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Revised Treasury Management Practices

Tendring
District Council



TREASURY MANAGEMENT PRACTICES

Including the Council's

TREASURY MANAGEMENT POLICY STATEMENT

April 2015

TREASURY MANAGEMENT POLICY STATEMENT

This document contains the Treasury Management Policy Statement, which defines the policies and objectives of the Council's treasury management activities, together with the Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve the stated policies and objectives and prescribe how it will manage and control those activities set out in the Council's Treasury Management Policy statement.

The proposed Treasury Management Policy Statement is as follows.

1. *The Council defines its treasury management activities as:
"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".*
2. *The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.*
3. *The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."*

	TITLE	Page
TMP 1	Treasury risk management	4
TMP 2	Best value and performance measurement	17
TMP 3	Decision–making and analysis	20
TMP 4	Approved instruments, methods and techniques	22
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements	24
TMP6	Reporting requirements and management information arrangements	29
TMP7	Budgeting, accounting and audit arrangements	32
TMP8	Cash and cash flow management	34
TMP9	Money laundering	35
TMP10	Staff training and qualifications	37
TMP11	Use of external service providers	38
TMP12	Corporate Governance	41

Note:

The text in Italics within these Treasury Management Practices has been taken direct from The Code.

This document refers to Schedules A to F which are not included in this attachment but are working documents maintained on an ongoing basis within the Finance and Procurement Service

TMP1 Risk Management

The Code states

The responsible 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 Council'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 Council 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 Council's capital or current (revenue) resources

The Code states

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 which 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 Advisors will provide regular updates of changes to all ratings relevant to the council.
4. Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be used to construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. The following table sets out the minimum credit ratings from each credit rating agency that counterparties must have in order to be on the Council's approved list.

Minimum ratings 1	Fitch	Moodys	Standard & Poors
Short term	F1	P-1	A-1
Long term	A-	A3	A-

An explanation of the credit ratings from the three agencies is set out in **Annex 1** of these TMPs

In determining whether counterparties should be on the list the lowest rating from those agencies providing a rating will be used, as long as there are a minimum of ratings from two (2) agencies. Counterparties with less than two ratings by the Credit Rating Agencies will not be considered.

Where a nationalised bank does not meet the above criteria a separate limit will apply

5. The Chief Financial Officer is responsible under the Council's Financial Procedure Rules for applying the approved credit rating criteria in determining approved counterparties.
6. **TMP Schedule A** will be maintained giving details of all counterparties that meet these criteria. Credit ratings for individual counterparties can change at any time and the schedule will be amended in accordance with the Council's Financial Procedure Rules.
7. Country credit rating – Besides individual financial institutions countries are also credit rated. A counterparty's host country (apart from UK banks) must have a minimum sovereign rating of AA for that counterparty to be placed on the Council's approved lending list. **TMP Schedule B** will be maintained of all countries that meet these criteria. Credit ratings for individual countries can change at any time and the schedule will be amended in accordance with the Council's Financial Procedure Rules.
8. The Council 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: -
 - o The quality financial press
 - o Market data
 - o Information on government support for banks and
 - o The credit ratings of that government support
 - o A credit default swap overlay as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

A credit default swap is a financial instrument very much like an insurance policy which is taken out by an investor to protect themselves against default by the borrower. If the borrower defaults the investor is paid a lump sum.

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

Category	Organisation	Criteria	Max amount per counterparty	Max period
A	Deposits with banks and building societies	Minimum F1, P-1, A-1 short term backed up by A-, A3, A-, long term	£3,000,000	2 years
B	Deposits with banks and building societies	Minimum F1+, P-1, A-1+ short term backed up by AA-. Aa3, AA- long term	£4,000,000	3 years
C	The Council's bank	As the Council's bank monies may be held overnight in the Council's current accounts until such time as they are invested on the money market.	£1,000,000	On call
D	UK Government	Investments in UK Treasury Bills, Gilts, and UK Debt Management Office (DMO)	Unlimited	
E	UK Local Authorities		£4,000,000 per authority	1 year
F	UK nationalised banks	Where the banks credit rating does not meet the minimum levels set out in 4 above	£3,000,000	1 year
G	Money Market Funds	AAA long term rating backed up with lowest volatility rating	£4,000,000 per fund	n/a
H	Bonds issued by multilateral development banks (MDBs)	AAA or those institutions guaranteed by the UK government	£3,000,000	3 years
J	Investment schemes (e.g. bond funds)	AA-	£3,000,000	3 years

10. The Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
- a. **Group limits** - where a number of institutions are under single ownership the maximum investment in that group will be £4m
 - b. **Building Society sector limit** – no more than 50% of the portfolio will be placed with building societies. The Chief Financial Officer may determine from

time to time, after seeking advice from the Council's treasury advisors, a lower operational limit. However as some investments mature it is possible that the percentage invested with building societies is greater than 50%. In this situation no further investments will be made in building societies until the limit has been achieved.

c. Local Authority Limits – no more than £4m can be placed with any individual other Local Authority but an unlimited amount can be placed with the local authority group.

d. Certificates of Deposit (CDs) limit – No more than 50% of the investment portfolio will be in CDs. However as some investments mature it is possible that the percentage invested in CDs is greater than 50%. In this situation no further investments will be made in CDs until the limit has been achieved.

e. Country limits – except for UK counterparties a minimum sovereign rating of AA is required for any counterparty to be placed on the Council's approved list. In order to protect the Council's exposure there will be a limit as to how much is invested with counterparties from a particular country. The limit will depend on that Country's credit rating. The following limits will apply

AAA rated countries	£4m
AA+ rated countries	£3m
AA rated countries	£2m

- 11 The Council will place the majority of its investments in Specified Investments although a limited amount may be placed in Unspecified Investments.
- 12 The Prudential Indicators approved by council will set the limit as to be total sum that can be invested for greater than 364 days.
- 13 The Council will only invest in those instruments that the treasury staff are fully conversant with. No investments will be made in new instruments without a full assessment of those instruments and the appropriate training.

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 Council's business/service objectives will be thereby compromised.

The Code states

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. 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 finance future debt maturities.

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

The Treasury Management officers shall seek to balance operational requirements with minimising balances 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. Bank overdraft arrangements

The Council has an overdraft facility with its bankers plus a standby arrangement should the overdraft limit be exceeded. Details of the overdraft facility which can be amended either at the instigation of the Council or the bank is shown in **TMP schedule C**.

b. Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on the London money market. Any temporary borrowing will not result in the Council's Authorised limit as set out in the Prudential Indicators approved by Council being breached.

c. 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.

d. Special payments

Arrangements are in place to ensure that treasury staff are advised well in advance of when any large payments are due to be paid or income received.

1.3 Interest Rate Risk Management

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.

The Code states

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 subject to the consideration and, if required, approval of any policy or budgetary implications.

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

Treasury officers will, with the assistance of the Council's treasury advisors, maintain knowledge of the financial market's views on future interest rates and take appropriate action if required.

1.3.2. Upper limit for fixed and variable interest rate exposure

The Council's limits are set out in the Treasury and Prudential indicators approved by Council each year as part of the Councils Annual treasury Strategy.

1.3.3. Policies concerning the use of instruments for interest rate management.

a. Forward Dealing

Consideration will be given to dealing for forward periods dependant upon market conditions. Treasury Staff are able to agree forward deals of up to £2m for a maximum of 14 days in advance.

When forward dealing is more than £2m or more than 14 days forward then the approval of the Chief Finance Officer is required.

Where the counterparty is another Local Authority Treasury Staff are able to agree forward deals of up to £2m for a maximum of 3 months in advance. Any amounts or timescales over and above these figures then the approval of the Chief Financial Officer is required.

b. Callable Deposits

The Council will use callable deposits as part as of its Annual Investment Strategy (AIS).

c. LOBOS (borrowing under lender's option/borrower's option)

Although to date all of the Council's external debt is with the PWLB the use of LOBOS is an option that will be considered when any borrowing decisions are made. All borrowing will be undertaken in accordance with the Council's Financial Procedure Rules and delegated powers.

1.4 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.

The Code states

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

1.4.1 Approved criteria for managing changes in exchange rate levels

The Council invests in Sterling only and makes very few payments in other currencies. Some income is received in foreign currencies mainly in respect of Council tax payments from people living abroad. As the council has a low exposure to exchange rate fluctuations no specific action is needed.

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 Council for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Code states

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 Council 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 determined by the Chief Financial Officer in consultation with the Finance and Transformation Portfolio Holder after seeking the advice of the Council's treasury advisors. Any rescheduling will be included in the annual report on the Council's Treasury activities and performance for the preceding year.

1.5.2. Projected Capital Investment Requirements

The Council's Financial strategy will include plans for capital expenditure for the period of the strategy together with revenue implications of the projects including financing charges. The financial strategy covers a period in excess of 3years.

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.

The Council will use the definitions provided in the Prudential Code for borrowing (paragraph 65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), and other long term liabilities (73).

1.5.4. Capital Receipts Generated by the HRA

75% of capital receipts generated by RTB (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 a limited number of exceptions such as 'qualifying disposals' (e.g. large and small scale voluntary transfers of housing to social registered landlords).

1.6 Legal and Regulatory Risk Management

The risk that the Council 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 Council suffers losses accordingly.

The Code states

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

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

In addition to the Council's own regulations contained in

- The Council's Procurement Procedure Rules
- The Council's Financial Procedure Rules

- The Council's Scheme of Delegated Powers

The treasury management activities of the Council shall comply fully with legal statute, guidance, and Codes of Practice which are listed in **TMP schedule D**

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.

England and Wales

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

In addition, it will make available on the request of counterparties the following: -

- a. The Council's constitution includes the Delegated Powers and Financial Procedure Rules which set out the responsibilities for treasury activities.
- b. The document setting out which officers are authorised signatories.

Required Information on Counterparties

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

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

The Chief Financial Officer shall take appropriate action with the Council, the Chief Executive and the Executive Leader 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 Legal Services Manager; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

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

The Code states

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.

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 Council's constitution which includes the Financial Procedure Rules sets out the responsibilities for treasury management activities.

Procedures

- The Council uses the current account banker's online service, a direct link to the Bank's computer, for making CHAPS payments to counterparties. The system can only be accessed by officers approved by the Chief Financial Officer, with different access levels dependent on need.
- CHAPS payments are input by a treasury officer. They must then be approved by a second officer before the payment can be transmitted.
- The Council uses Logotech District Council's Treasury Management (DCTM) system to manage its treasury activities. The data is held on a server and is accessible by all users of the system, although only one concurrent access is permitted.
- The treasury management system can only be accessed by officers approved by the Chief Financial Officer.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the DCTM system.
- Investments in deposit accounts which are at call are placed directly by treasury staff and checked to the bank statement when received.
- For all other investments a written acknowledgement or Email of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.

- Written confirmation or Email is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Chief Financial Officer and resolved by the Senior Finance Manager.
- 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 are reported to the Chief Financial Officer and resolved by the Senior Finance Manager.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The DCTM system prompts the Senior Finance Manager that money borrowed or lent is due to be repaid.
- 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.
- The treasury section is very small and no officer deals with treasury matters on a full time basis. Wherever possible there is a separation of duties in the section between the staff placing investments/deals and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury management team is an authorised signatory.
- Payments to counterparties other than via the current account banker's online system can only be authorised in a formal letter by two authorised signatories, the list of signatories having previously been agreed with the current provider of our banking services. The DCTM system can only be accessed by a password.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The DCTM system balances are proved to the balance sheet ledger codes as a minimum at the end of each quarter and at the financial year end.
- A debt charge/investment income listing is produced every month at which point a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the DCTM system.
- The DCTM system automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

The Council's Contingency Plan takes into account the need to maintain treasury management activities.

Emergency manual procedures are available in the event of a breakdown of the Bank's system.

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

All DCTM system' data files held on the server are backed up daily. This allows for recovery of data in the event of an emergency or hardware failure.

1.7.3. Insurance Cover Details

Fidelity Insurance

The Council has "Fidelity Guarantee" insurance Policy which covers the loss of cash by fraud or dishonesty of employees.

Indemnity Insurance

The Council also has an "Officials Indemnity" insurance policy which covers loss to the Council from the actions and advice of its officers which are negligent and without due care.

Business Interruption

The Council also has a 'Business Interruption' policy together with a specialist "DataGuard" cover to meet the additional costs in respect of re-instating IT systems in the event of a disaster.

Full details of the cover afforded by these policies are held within Finance and Procurement. The cover is reviewed annually on renewal.

1.8 Market Risk Management

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.

The Code states

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 fluctuations in the capital value of Treasury Bills, Gilts, and Certificates of Deposit (CDs)

These instruments are very liquid in that they can be cashed before their maturity date. To be guaranteed a full return on the initial investment these instruments have to be left to mature naturally.

However if it is necessary to realise the investment prior to maturity date the price received will vary depending on the market for those instruments at the time. The market value will in the main be dependent upon the current interest rates compared to the coupon rate of the investment. In some cases the redemption value will result in achieving a profit, but there is a risk that there will be a loss.

In order to combat this, a limit has been placed on the total proportion of the investment portfolio that can be invested in CDs.

No limit has been placed on Treasury Bills and Gilts because

- They may need to be used when the sums cannot be invested elsewhere, either as a result of falling credit ratings, reaching the limit for a counterparty, or group, or simply that the approved counterparties are not in the market to take investments at that time.
- The state of the financial markets is such that security is the most important factor.

It is not intended that all investments are held in Treasury Bills or Gilts, but the limit has been set at 100% to cover emergencies. Day to day operational limits for normal scenarios will be set by the Chief Financial Officer.

In addition to restricting the amount of the portfolio that can be invested in CDs the aim is to have sufficient resources invested at call to cover the most likely scenario.

The Council will invest in Specified and Non-Specified Investments. An explanation of the two types of investments and the limit that can be invested in Non-Specified Investments is agreed as part of the Annual treasury strategy for the forthcoming year as an appendix. This appendix is reproduced in **TMP Schedule F**.

TMP 2 PERFORMANCE MEASUREMENT

Performance management is a process designed to calculate the effectiveness of a portfolio's or manager's investment returns or borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognized industry standards or market indices.

The Code states

This organisation 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 treasury management policy statement.

2.1 Evaluation and Review of Treasury Management Decisions

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

- a. Periodic reviews during the financial year
- b. Reviews with the Council's treasury management advisors
- c. Annual review after the end of the year as reported to Cabinet
- d. Treasury performance is included in the Corporate Budget monitoring (CBM) report to Cabinet and Corporate Management Committee
- e. Review by Corporate Management Committee of the Annual Treasury Strategy

2.1.1. Periodic reviews during the financial year

The Chief Financial Officer conducts treasury management reviews with the treasury management officers on an ongoing basis to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include:

- a) Total debt (both on-and off balance sheet) 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 the Council's treasury management consultants

The treasury management team discusses treasury management issues with our advisors on a regular basis.

2.1.3. Annual Review after the end of the financial year

The Chief Financial Officer will report to Cabinet at the earliest opportunity after 31 March in any year on the Council's Treasury Management performance and activities in the preceding financial year

This report will contain a commentary on at least the following: -

- Total debt and investments at the beginning and close of the financial year and average interest rates
- Borrowing strategy for the year compared to actual strategy
- Investment strategy for the year compared to actual strategy
- Explanations for variance between original strategies and actual
- Debt rescheduling done in the year or confirmation that no debt rescheduling has taken place.

- Actual borrowing and investment rates available through the year
- Comparison of return on investments to any investment benchmark
- Compliance with Prudential and Treasury Indicators

2.1.4 Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- Any benchmarking data that the Council has contributed to

2.2 Benchmarks and Calculation Methodology:

2.2.1. Debt management

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

2.2.2. Investment.

The performance of investment earnings will be measured against the 7 day LIBOR on investments excluding government

2.3 Policy Concerning Methods for Testing Value for Money in Treasury Management

2.3.1. Advisory services

The Council's uses both professional treasury management advisors and leasing advisors to assist treasury management staff. The appointment will be in accordance with the Council's Procurement Procedure Rules.

Details of the Council's treasury advisors are detailed in **TMP Schedule E**

2.3.2. Banking services

The contract for the supply of banking services to the Council will be awarded in accordance with the Council's Procurement Procedure Rules. The length of the contract will be that considered appropriate by the Chief Financial Officer.

Details of the Council's bankers are detailed in **TMP Schedule E**

2.3.3. Money-broking services

In addition to dealing directly with counterparties, 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.

TMP schedule E sets out the list of approved money brokers and the services they are authorised to provide.

2.3.4. Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy does not use external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

The Code states

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and practices to be pursued in reaching decisions are detailed below.

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

3.1.1 Records to be kept

The Treasury section has a computerised treasury management system in which all investment and loan transactions are recorded. Full details of the system are covered in the user manual. The following records will be retained: -

- Daily cash balance forecasts
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

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, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Council / Council's officers 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 / Council's officers will:

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

3.1.3.3 In respect of investment decisions, the Council / Council's officers 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

The Code states.

This organisation 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 TMP 1 Risk Management

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;
- Leasing.

4.2 Approved Instruments for Investments

The Council will follow the guidelines issued by CLG. The current instruments are detailed in the schedule to this document.

4.3 Approved Techniques

- Forward dealing
- 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 available a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●

Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EU Capital Grants

Grants from external organisations

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 Chief Financial Officer has delegated powers in accordance with the Council's Delegated Powers and Financial Procedure Rules and the Annual Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

TMP 1.1 sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy and Prudential and Treasury Indicators.

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

The Code states

This organisation 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, and the audit and review of the treasury management function.

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

The responsible officer 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 responsible officer 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 to this document.

The responsible officer will ensure that 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 to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisations policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

5.1 Allocation of responsibilities

The responsibilities are set out in the Councils constitution.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The Council does not have a full time treasury team. The day to day treasury activities are undertaken by a small team of 2 in addition to other duties. The following duties will wherever possible be undertaken by separate officers: -

- | | |
|---------|--|
| Dealing | <ul style="list-style-type: none"> ○ Negotiation and approval of deal. ○ Receipt and checking of brokers' confirmation note against loans diary. ○ Reconciliation of cash control account. ○ Bank reconciliation |
|---------|--|

Accounting Entry	○ Production of transfer note.
Input/Payment of Deal	○ Processing of accounting entry
Authorisation of Deal	○ Entry onto system.
	○ Payment.
	○ Approval of payment

5.3 Treasury Management Organisation

Post	Responsibilities
Chief Financial Officer	Overall responsibility for treasury management
↓	
Corporate Finance Manager	Management of treasury management activity and advice to Chief Financial Officer
↓	
Senior Finance Manager	All day to day operations including placing of investments; management of cash flow; reviewing credit ratings and complying with TMPs
↓	
Finance and Procurement Officer	Assistance to Senior Finance Manager and day to day operations in absence of Senior Finance Manager

Additional back up in the event of holidays and emergencies is provided by the Finance and Procurement Assistant.

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

5.4.1. The Chief Financial Officer

- The Chief Financial Officer has professional responsibility for the financial affairs of the Council. Responsibilities in respect of the treasury management function are detailed in the Council's Financial Procedure Rules.
- The Chief Financial Officer will also 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. Corporate Finance Manager

The responsibilities of this post will be: -

- The management of the treasury management services

- b) Advising the Chief Financial Officer on treasury management issues, policies and practices
- c) Ensuring that the Council's external service providers are meeting the needs of the Council.

5.4.3. Senior Finance Manager

The responsibilities of this post will be: -

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

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 Chief Financial Officer reports regularly to the Council or Cabinet, as appropriate, on treasury policy, activity and performance.

5.4.5 The Monitoring Officer – the Legal Services Manager

The responsibilities of this post will be: -

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

5.4.6 Internal Audit

The responsibilities of Internal Audit will be: -

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

5.5 Absence Cover Arrangements

The Council has a small treasury operation, as a result of which it is necessary for the Senior Finance Manager and Finance and Procurement Officer to make arrangements between themselves regarding leave. In the event of an emergency other officers have been trained to provide basic cover for the day to day activities.

5.6 Dealing Limits

The following posts are authorised to deal: -

- Senior Finance Manager
- Finance and Procurement Officer
- Finance and Procurement Assistant

- Chief Financial Officer

There are no dealing limits for individual posts

5.7 List of Approved Brokers

A list of approved brokers is maintained within the treasury team on **TMP Schedule E** and a record of all transactions recorded against them. The performance of brokers is reviewed by the Senior Finance Manager every 6 months 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 Chief Financial Officer

5.8 Policy on Brokers' Services

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

5.9 Policy on Taping of Conversations

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

5.10 Direct Dealing Practices

The Council will deal 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 where direct dealing is always required, as follows;

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

5.11 Settlement Transmission Procedures

For payments a transfer will be made through the current account banker's online system to be completed by 3.00 pm on the same day.

In the event of a system failure a contingency form has been supplied by the bank. This will set out each transaction, be signed by two authorised cheque signatories and be faxed to the local authority's bankers.

5.12 Documentation Requirements

For each deal undertaken a record is prepared within the DCTM system giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

TMP 6 Reporting Requirements and Management Information Arrangements

The Code states

This organisation 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 organisation (i.e. full board/council) will receive:

- *An annual report on the strategy and plan to be pursued in the coming year*
- *A mid year review*
- *An annual report on the performance of the treasury management functions, 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 committee/board/council will receive regular reports on treasury management activities and risks.

The body responsible for scrutiny, such as audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes

The present arrangements and the form of these reports are detailed in the schedule to this document.

6.1 Annual programme of reporting

The reporting programme is set out in the Council's Financial Procedure Rules

6.2 Annual Treasury Management Strategy Statement

1. The Annual Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and Corporate Management Committee and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the Annual Treasury Strategy for any year involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates.
3. The Annual Treasury Strategy 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 covering

- i. The Council's risk appetite in respect of security, liquidity and optimum performance
 - ii. The definition of high credit quality to determine what are specified investments as distinct from non specified investments
 - iii. Whether the Council will use non specified instruments
 - iv. Whether investments are carried out in house or by external managers.
 - v. 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
 - vi. Which credit rating agencies the Council will use
 - vii. How the Council will deal with changes in ratings, rating watches and rating outlooks
 - viii. Limits for individual counterparties and group limits
 - ix. Country limits
 - x. Interest rate outlook
- i) Creditworthiness policy
 - j) Policy on the use of external service providers
 - k) The expected move in interest rates against alternatives highlighting sensitivities to different scenarios
 - l) Any extraordinary treasury issues

6.3 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 in advance of or at the same time as the Budget Report.

6.4 Policy on Prudential and Treasury Indicators

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

6.5 Mid year review

A review of the Council's treasury management activities and strategy will be carried out by the Chief Financial Officer after 30 September in any year and reported to members in accordance with the Council's Financial Procedure Rules. 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.

6.6 Annual Review Report on Treasury Management Activity

An annual report will be presented to the Cabinet at the earliest practicable meeting after the end of the financial year. 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

6.7 Management Information Reports

The Chief Financial Officer will report during the course of the financial year on the Council's Treasury Management performance and activities. Such reports to be considered by Cabinet and the Corporate Management Committee

These reports will contain at least the following information: -

- a) A summary of transactions executed measurements of performance including effect on loan charges/investment income;
- b) Degree of compliance with original strategy and explanation of variances.
- c) Any non compliance with Prudential Limits or other treasury management limits.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The code states

The responsible officer will prepare, and this organisation 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 responsible officer 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.

This organisation 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.

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 relevant Accounting Practices and Accounting Standards as they apply to Local Authorities in Great Britain.

7.3 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Chief Financial Officer will, based on the Council's Financial strategy, prepare 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 Chief Financial Officer will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4 List of Information Requirements of External Auditors.

It is normal practice for the external auditor to have access to all papers supporting and explaining the operation and activities of the treasury management function. The auditor will be expected to enquire as to whether the Code has been adopted, and whether its principles and recommendations have been implemented and adhered to.

The following are some of the areas that the external auditors may review and seek explanation from council officers

- a. Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- b. Maturity analysis of loans outstanding

- c. Certificates for new long term loans taken out in the year
- d. Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- e. Calculation of loans fund interest and debt management expenses
- f. Details of interest rates applied to internal investments
- g. Calculation of interest on working balances
- h. Interest accrual calculation
- i. Principal and interest charges reports from the DCTM system
- j. Analysis of any deferred charges
- k. Calculation of loans fund creditors and debtors
- l. Annual Treasury Report
- m. Treasury Management Strategy Statement and Prudential and Treasury Indicators
- n. Review of observance of limits set by Prudential and Treasury Indicators
- o. Calculation of the Minimum Revenue Provision
- p. External fund manager(s) valuations including investment income schedules and movement in capital values.

7.5 Corporate Budget Monitoring Report

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

TMP 8 Cash and Cash Flow Management

The Code states

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the responsible officer, 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 responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) liquidity risk management.

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

An annual cash flow projection is made for the forthcoming year based on the Council's approved budget for that year taking into account the previous years' cash flow records, adjusted for known changes in levels and timing of income and expenditure. This cash flow is used to draw up a daily cash flow projection which is monitored daily and amended on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Council obtains bank statements each day from the current account banker's online system and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A bank reconciliation is undertaken on a monthly basis by the Finance Officer.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

The Council's policy is to pay creditors within 20 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 7 days.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

Departments have been asked to notify treasury staff as soon as they receive an invoice or request for payment of £25,000 or more and to advise them of the amount, to whom the payment is to be made and the date it will be paid.

Similar information has also been requested for invoices raised by the Council and where requests for payment of grants from outside bodies have been made.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be either passed to the cashiers to deposit in the Council's banking accounts or paid in direct to the bank. The cashiers will notify the Senior Finance Manager each morning of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

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

TMP 9 Money Laundering

The Code states

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 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 to this document.

9.1 Proceeds of Crime Act

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. Legislation establishes the main offences relating to money laundering., such as:

- 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 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.

Details of the Council's response to these obligations is set out in the Council's Financial Procedure Rules.

9.2 Terrorism Legislation

Legislation 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 Money Laundering Regulations

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) 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.

9.4 Local authorities

- a) As responsible public bodies, local authorities should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. The Council's Financial Procedure Rules incorporate a section on Money laundering.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement 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 will not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the relevant legislation. This register can be accessed through the FCA website on www.fca.org.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 any relevant legislation.

All transactions for making deposits or repaying loans will be carried out by BACS, CHAPS or equivalent.

TMP 10 Training and Qualifications

The Code states

This organisation recognises the importance of ensuring that all staff involved in treasury management functions 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 responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/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 to this document.

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 will receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a staff development and appraisal system which will identify training needs.

It may be appropriate that training is provided on the job and it will be the responsibility of the Senior Finance Manager to ensure that all staff assisting in treasury activities receive the level of training appropriate to their duties. This will also apply to those members of staff that, 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 have the opportunity to attend courses provided by our treasury management advisors, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Senior Finance Manager will maintain records on all staff and the training they receive.

10.3 Statement of Professional Practice (SOPP)

Where the Chief Financial Officer is a member of CIPFA, there is a professional need for them to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. 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 by the service responsible for member training 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.

TMP 11 Use of External Service Providers

The Code states

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 that the terms of their appointment and the methods by which their value will be assessed are properly agreed and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or retender arrangements legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external advisors 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 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

The main external service providers are in respect of

Banking services
 Treasury advisory services
 Leasing advisory services
 Money Brokers

A schedule of the external service providers is set out in TMP Schedule E

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

11.2 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.

11.3 Procedures and Frequency for Tendering Services

The Chief Financial Officer will determine the length of any contract for the provision of services by external providers.

TMP 12 Corporate Governance

The Code states

This organisation 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.

This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

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.

The following documents are public documents and are available for public inspection either in hard copy as part the agenda for public meetings and/ or are published on the Council's website.: -

- Treasury Management Policy Statement
- Treasury Management Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Performance Report
- Treasury Management monitoring reports to cabinet and Corporate Management Committee
- Annual accounts and financial instruments disclosure notes
- Annual budget
- 3 Year Capital Plan
- Minutes of Council / Cabinet / committee meetings

Annex 1**Explanation of Credit ratings used by each of the three Credit Rating Agencies****Fitch****1. Long Term Rating**

These generally cover maturities of up to five years. Given the larger time horizon over which the long-term rating is determined, the emphasis is on the assessment of the ongoing stability of the institution's prospective financial condition, for example, the sensitivity to fluctuations in market conditions, the capacity for maintaining profitability or absorbing losses in a difficult operating environment.

2. Short Term Rating

These cover obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments.

The Far Eastern crisis in 1997 demonstrated that the short-term rating could be insufficient when viewed in isolation. The long-term rating adds an important dimension in evaluating the vulnerability of an institution to rapid changes in economic conditions and therefore gives a better perspective on overall creditworthiness.

It must be remembered, though, that the long-term rating of any financially weak institution with strong external support is susceptible to any diminution, actual or perceived, in that support, as occurred when the state guarantee to the German Landesbanks was terminated on 18 July 2005.

Moody's

1. Long Term Rating

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised.

2. Short Term Rating

Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

Standard & Poor's

1. Long Term Rating

Long Term credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default

2. Short Term Rating

Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations.

Comparison of Agencies' ratings

Each rating agency uses a different coding system. The table below gives the comparative ratings for each of the agencies.

The shaded ratings are those that meet the minimum rating for inclusion in the approved Counterparty list. These are unchanged for Long term and Short term ratings.

Long Term

Fitch	S&P	Moody's
AAA	AAA	Aaa
AA+	AA+	Aa1
AA	AA	Aa2
AA-	AA-	Aa3
A+	A+	A1
A	A	A2
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB	Baa2
BBB-	BBB-	Baa3

Short Term

Fitch	S&P	Moody's
F1+	A-1+	
F1	A-1	P-1
F2	A-2	P-2
F3	A-3	P-3

The following are proposed to be removed as set out in the main body of the report

Individual

Fitch	S&P	Moody's
		A+
A		A
		A-
A/B		B+
B		B
		B-
B/C		C+
C		C
		C-
C/D		D+
D		D
		D-
D/E		E+
E		E+

Support

Fitch
1
2
3
4
5