Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

16 FEBRUARY 2018

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.7 ANNUAL TREASURY STRATEGY FOR 2018/19 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS) AND UPDATED TREASURY MANAGEMENT PRACTICES

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To agree the Annual Treasury Strategy for 2018/19 (including Prudential And Treasury Indicators) for submission to Council and to seek approval of updated Treasury Management Practices.

EXECUTIVE SUMMARY

- The Annual Treasury Strategy for 2018/19, including Prudential and Treasury Indicators, was approved by the Finance and Corporate Resources Portfolio Holder for consultation with the Corporate Management Committee.

- Corporate Management Committee considered the Strategy at its meeting on 29 January 2018 and agreed the following comments to Cabinet:

  (a) the Committee is aware that risk currently appears low but that the policy going forward is robust insofar as the Council is investing in commercial property and is building on a long-term projection of continuing low interest rates; and

  (b) that the Officers be congratulated on the quality of the Treasury Strategy and the Council's ongoing performance."

- The Annual Treasury Strategy has been subject to minor amendments to reflect the most up to date information along with the Prudential Indicators now taking into account the final budget for 2018/19 that was agreed by Council on 6 February 2018. Apart from these minor amendments the Strategy remains as presented to the Corporate Management Committee.

- After considering the comments of the Corporate Management Committee, Cabinet are required to agree the Annual Treasury Strategy for 2018/19 (including Prudential and Treasury Indicators) that is attached as **Appendix A** for recommending to Council in March 2018. The changes compared to previous years are highlighted in italics and shading within the appendix.

- Due to recent revisions to the Treasury Management Code of Practice and the Prudential Code it has been necessary to also update the Council's Treasury Management Practices (TMP's). Revised TMP's are attached as **Appendix B** for approval by Cabinet. The changes are highlighted in italics and shaded within the appendix. It is important to highlight that the changes reflect the new requirement to include non-treasury investment, such as commercial property, along with changes to how financial institutions deal with the Council as an investor. In respect of the latter point, the TMP's now include a schedule which highlights where the Council has opted up to maintain its professional status for the purposes of investing with the relevant financial institution.

RECOMMENDATIONS

It is recommended that:

- **Cabinet notes the comment of the Corporate Management Committee and agrees that the Annual Treasury Strategy for 2018/19 (including Prudential And Treasury Indicators) attached at Appendix A be submitted to Council for approval; and**
- **Cabinet approves the revised Treasury Management Practices attached as Appendix B.**

APPENDICES

Appendix A – Annual Treasury Strategy for 2018/19 (including Prudential And Treasury Indicators)
Appendix B – Treasury Management Practices

Tendring
District Council

PRO BONO OMNIUM
FOR THE GOOD OF ALL

ANNUAL TREASURY STRATEGY FOR 2018/19

January 2018

Annual Treasury Strategy for 2018/19

The Annual Treasury Strategy has been prepared in accordance with the CIPFA Code and includes the following sections.

1. Background
2. Treasury Limits for 2018/19 to 2020/21
3. Prudential and Treasury Indicators for 2018/19 to 2020/21
4. Current Portfolio Position
5. Borrowing Requirement
6. Economic Position
7. Interest Rates
8. Borrowing strategy
    - 8.1 External v internal borrowing
    - 8.2 Gross and Net Debt Positions
    - 8.3 Policy on borrowing in advance of need
9. Debt Rescheduling
10. Annual Investment Strategy
    - 10.1 Investment Policy
    - 10.2 Creditworthiness Policy
    - 10.3 Credit Limits
    - 10.4 Country Limits
    - 10.5 Investment Strategy
    - 10.6 Allocation of Investment returns between GF and HRA.
    - 10.7 End of year investment report

1. Background

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. Both CIPFA Codes were revised in December 2017 and this treasury strategy has been drawn up with regard to the revised Codes.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Council's risk appetite is low and it takes a risk-averse approach to Treasury Management, with the security and liquidity of the investment the prime concern, and the budget for income from investments being formulated on this basis. The Annual Strategy for 2018/19 is based on this risk-averse approach continuing.

For a number of years the Council has engaged the services of treasury advisors to provide its officers with advice on treasury management issues. The current advisors are Link Asset Services (formerly called Capita Asset Services, Treasury Solutions) (Capita). However the final decision and responsibility for the actions taken sits with the Council's own officers after considering that advice.

The details of the delegations and responsibilities for treasury management are contained within the Council's Constitution as follows:-

- Part 3 – delegated powers – The Executive / Finance and Corporate Services Portfolio Holder
- Part 5 – Financial Procedure Rules

2. Treasury Limits for 2018/19 to 2020/21

It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit of external debt, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'*. Capital investment must be considered in the light of the overall strategy and resources available, with decisions made with sufficient regard to the long term financing implications and potential risks.*

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing include both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in Annex 1 of this report.

The authorised limit reflects the additional borrowing requirement as part of the Housing Revenue Account (HRA) self-financing reforms. The Housing self-financing reforms also set an overall 'debt cap' for the HRA which in itself reflects an affordability level based on the Government's model of how much debt can be supported by the HRA after considering the forecast of income from rents and management and maintenance costs over a 30 year period. The HRA debt cap for Tendring is £60,285,000.

3. Prudential and Treasury Indicators for 2018/19 to 2020/21

Prudential and Treasury Indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. ~~*The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management.*~~ *The latest revisions to the CIPFA Code of Practice on Treasury Management and to the CIPFA Prudential Code are* effectively adopted via the approval of this Strategy which reflects the most up to date codes and guidance.

4. Current Portfolio Position

The Council's treasury position at the end of December 2017 comprised:

- GF borrowing from The Public Works Loan Board (PWLB) of £0.620m at fixed rates at an average rate of interest of 8.12%
- HRA borrowing from the PWLB of £43.726m at fixed rates at an average rate of 3.34%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £60.198m at an average rate of interest of 0.39%.

5. Borrowing Requirement

No new, alternative or replacement borrowing is currently reflected in the budgets for both the General Fund and HRA for the period 2017/18 to 2020/21. This position therefore excludes any assumptions on additional borrowing, which would be subject to further consideration as necessary set against the underlying principle of the Council's borrowing requirement being kept under on-going review to respond to any new / future burdens or priorities and overall financial position.

6. Economic Position

The Council's Treasury Advisors provide economic updates during the year with the latest position set out as follows:

World economy

World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October 2017 the International Monetary Fund (IMF) upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018. Inflation prospects are generally muted and wage inflation has been subdued.

Economic growth in the Eurozone, the UK's biggest trading partner, picked up in 2016 and 2017, although inflation remains below the 2% target. Growth in the US has been erratic in 2017, with fluctuations each quarter. Unemployment in the US has fallen to its lowest level for many years, while wage inflation and inflationary pressures have been building. US interest rates have been increased gradually over the past 12-18 months, with this trend expected to continue in 2018.

UK economy

After strong economic growth in 2016, growth in 2017 has been disappointingly weak. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling, feeding increases in the cost of imports and a reduction in consumer spending power. This has particularly impacted on the services sector of the economy, which accounts for around 80% of GDP. However, more recently there have been encouraging statistics from the manufacturing sector, which is seeing strong growth in exports.

The September meeting of the Monetary Policy Committee (MPC) suddenly switched to a stronger warning that the bank rate needed to rise soon with the forecast peak for inflation revised to just over 3%. On 2 November the MPC increased the Bank Rate by 0.25% to 0.50% with forward guidance that they expected to increase the Bank Rate only twice more in the next three years to reach 1.0% by 2020.

Investment returns are therefore likely to remain low during 2018/19 and beyond. The policy of avoiding new borrowing by using cash balances has served well over the last few years. However, this needs to be carefully balanced to avoid incurring higher borrowing costs in later times, when authorities may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

7. Interest Rates

The following table gives the Council's External Treasury Advisor's view on Bank Rate movements and their forecast for the PWLB new borrowing rate based on that view. The PWLB rates are based on the 'Certainty Rate' introduced by the Government for local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. Investment returns are likely to remain low during 2018/19 and beyond.

	Bank Rate	LIBID (London Interbank Bid Rate)*			PWLB Borrowing Rate			
		3 month	6 month	12 month	5 yr.	10 yr.	25 yr.	50 yr.
Dec 2017	0.50	0.40	0.50	0.70	1.50	2.10	2.80	2.50
Mar 2018	0.50	0.40	0.50	0.80	1.60	2.20	2.90	2.60
Jun 2018	0.50	0.40	0.50	0.80	1.60	2.30	3.00	2.70
Sep 2018	0.50	0.40	0.60	0.90	1.70	2.40	3.00	2.80
Dec 2018	0.75	0.60	0.80	1.00	1.80	2.40	3.10	2.90
Mar 2019	0.75	0.60	0.80	1.00	1.80	2.50	3.10	2.90
Jun 2019	0.75	0.60	0.80	1.10	1.90	2.60	3.20	3.00
Sep 2019	0.75	0.70	0.90	1.10	1.90	2.60	3.20	3.00
Dec 2019	1.00	0.90	1.00	1.30	2.00	2.70	3.30	3.10
Mar 2020	1.00	0.90	1.00	1.30	2.10	2.70	3.40	3.20
Jun 2020	1.00	1.00	1.10	1.40	2.10	2.80	3.50	3.30
Sep 2020	1.25	1.20	1.30	1.50	2.20	2.90	3.50	3.30
Dec 2020	1.25	1.20	1.30	1.50	2.30	2.90	3.60	3.40
Mar 2021	1.25	1.20	1.40	1.60	2.30	3.00	3.60	3.40

** LIBID – the rate at which a bank is willing to borrow from other banks*

8. Borrowing Strategy

8.1 External v Internal Borrowing

The main Prudential Indicator relevant to capital investment is the Capital Financing Requirement (CFR). This is the total outstanding capital expenditure that has not yet been funded from either revenue or capital resources and is therefore a measure of the Council's underlying borrowing need after taking into account the provision included in the revenue budgets for the repayment of outstanding debt.

The borrowing to finance the capital expenditure can be either from external sources or the Council can use its own internal resources.

The planned external debt compared to the CFR over 5 years is shown in the following table, the difference between the two being the amount the Council has funded from internal resources. This is also set out separately for the GF and the HRA. This excludes other long term liabilities such as long term creditors and pensions which form part of the separate Financial Strategy process of the Council from a prudential perspective.

Total External Debt

	Actual 2016/17	Revised 2017/18	Estimate 2018/19	Forecast 2019/20	Forecast 2020/21
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	48,118	45,870	43,898	42,076	40,312
Estimated change in debt	(2,248)	(1,972)	(1,822)	(1,764)	(1,720)
Estimated debt as at 31 March	45,870	43,898	42,076	40,312	38,592
CFR as at 31 March	**51,257**	**49,347**	**47,447**	**45,556**	**43,674**
Difference - internally financed	5,387	5,449	5,371	5,244	5,082

General Fund External Debt

	Actual 2016/17	Revised 2017/18	Estimate 2018/19	Forecast 2019/20	Forecast 2020/21
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	1055	771	464	306	206
Estimated repayment of debt	(284)	(307)	(158)	(100)	(56)
Estimated debt as at 31 March	771	464	306	206	150
CFR as at 31 March	**6,158**	**5,913**	**5,677**	**5,450**	**5,232**
Forecast of internal financing	5,387	5,449	5,371	5,244	5,082

HRA External Debt

	Actual 2016/17	Revised 2017/18	Estimate 2018/19	Forecast 2019/20	Forecast 2020/21
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	47,063	45,099	43,434	41,770	40,106
Estimated repayment of debt	(1,964)	(1,665)	(1,664)	(1,664)	(1,664)
Estimated debt as at 31 March	45,099	43,434	41,770	40,106	38,442
CFR as at 31 March	**45,099**	**43,434**	**41,770**	**40,106**	**38,442**
Forecast of internal financing	0	0	0	0	0

In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is high, and will be continued.

The Council's officers have made an assessment, based on advice from treasury advisors, of the amount of internal resources that it is prudent to use to finance capital expenditure and it is felt, taking into account the Council's financial position, that approximately £4m-£5m would at the present time and over the medium term be an appropriate level of internal borrowing. A maturity loan of £1m fell due for repayment in 2014 but this was not replaced which has led to the current internal borrowing position running just ahead of the £5m level. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors.

The use of internal resources is only a temporary solution as, in time, these reserves and capital receipts will be utilised to finance service initiatives and capital investment and at that point will not be available. This will need to be balanced against the replacement external borrowing which will be required at some point in the future which may attract higher rates of interest, so timing of such borrowing will need to consider forecasted rates of interest against the various types of borrowing structure to determine the most advantageous approach. Against this approach consideration may be required to borrow in advance of need, as set out in section 8.3 below, so as to reduce the need to borrow when interest rates may be higher.

8.2 Gross Debt v Investments

A comparison between the Council's gross and net borrowing position helps to assess the credit risk that would apply if the Council has surplus resources invested at a low interest rate which could be used to repay existing debt or to negate the need for additional new debt if at higher interest rates than that being achieved on the investments.

The table below sets out the Council's probable position taking account of both the individual GF and HRA debt figures.

Comparison of gross and net debt positions at year end	2016/17	2017/18	2018/19	2019/20	2020/21
	actual	Probable out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
General Fund external debt (gross)	771	464	306	206	150
HRA external debt (gross)	45,099	43,434	41,770	40,106	38,442
Investments	52,865	51,400	15,000	15,000	15,000
Net debt	**(6,995)**	**(7,502)**	**27,076**	**25,312**	**23,592**

The net debt positions show that the Council does not have excess resources which could be used to repay long term debt – the surpluses and high current investment figures represent carry forwards on spend and the current level of reserves.

If opportunity arises, external debt will be repaid early, although this is difficult under current arrangements as set out in section 9. If borrowing is required then any requirement will be considered whilst balancing internal resources and forecasted interest rates within the parameters previously set out.

Against this background caution will be adopted within the 2018/19 treasury operations. Interest rates will be monitored and a pragmatic approach adopted to changing circumstances with appropriate action taken in accordance with the Council's Financial Procedure Rules.

8.3 Policy on borrowing in advance of need

The Council cannot borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

9. Debt Rescheduling

Officers together with the treasury advisors examine on a regular basis the potential for undertaking early repayment of some external debt to the PWLB in order to maximise any potential financial advantages to the Council. However, the continuing and significant difference between new borrowing and repayment rates has meant that large premiums would be incurred by such action and cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or repayment rates change substantially.

As short term borrowing rates will be cheaper than longer term rates there may be some potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing these short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

Any opportunities for debt rescheduling will be considered if such action would be advantageous to the Council. The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the strategy outlined above
- enhance the balance of the portfolio

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

10. Annual Investment Strategy

10.1 Investment Policy

The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments, the latest CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes (the Code) along with any relevant revisions or updates. The Council's investment priorities when investing are: -

- The security of capital and
- The liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with these main priorities. It is important to note that the borrowing of monies purely to invest or on-lend and make a return is unlawful.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The majority of the Council's investments will be in Specified Investments although the Council has limited investments in Non- Specified investments.

During 2017/18 the Council purchased an investment property in Clacton, which is a Non-Specified investment. The historic cost (including stamp duty) of this asset was £3.245 million and it is financed from revenue. The property was purchased with the aim of yielding rental income and with the potential for capital gains. This investment does not have a defined maturity date and it is an illiquid investment as the Council would need to sell the underlying asset to redeem the investment.

The property will be subject to annual revaluation to reflect current value under the requirements of the Accounting Code of Practice and this will be reported in the Statement of Accounts. The accounting carrying value for the 2017/18 Statement of Accounts has yet to be determined by the Council's Valuer. The anticipated return on the property through rental income compared to the historic cost is forecast to remain in line with the figures included in the report to Cabinet where the decision to purchase was made.

The Council has adopted a Commercial Property Investment Policy which will be maintained as a separate document within the wider Treasury Strategy framework.

The Council does not intend to use derivative instruments as part of its treasury activities during the year.

10.2 Creditworthiness Policy and changes to the credit rating methodology

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. In determining the appropriate credit rating the Council will use the lowest rating available to determine the investment limits both in terms of amount and period for a particular counterparty. This is in accordance with the recommendations of The Code. Counterparties rated by only one agency will not be used.

One of the credit rating agencies may be more aggressive in giving lower ratings than the other two agencies and this could result in the Council's counterparty list becoming too restrictive. If this happens the position will be discussed with the Council's treasury advisors and the Treasury Management Practices may need to be revised in accordance with delegated powers set out in the Council's Constitution.

- All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Creditworthiness Service provided by the Council's external advisors which is downloaded from Link Asset Services website each morning and uploaded to the Treasury Management system.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for a new investment will be withdrawn immediately.

The Code also recommends that credit ratings are not the sole determinant of creditworthiness and therefore the Council will also use available market information from a variety of sources including

1. The Creditworthiness Service utilises movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. This creditworthiness service information will be used to confirm the assessed creditworthiness derived from the three ratings agencies. Where the information from this service indicates a lower standing for a particular counterparty than that derived via the credit ratings then the investment limits and length of investments applicable to that counterparty will be adjusted accordingly or the counterparty removed from the list.
2. Market data and information,
3. Information on government support for banks and the credit ratings of that government support

10.3 Credit Limits

Through its approved Treasury Management Practices the Council will set maximum limits for the amount that can be invested with any counterparty. This limit will be determined by reference to the counterparty's credit rating and other criteria. In addition the amount invested in building societies and Certificates of Deposit is also limited to 50% of the total investment portfolio.

100% of the Council's investments may be in Treasury Bills or Gilts or invested with the Government's Debt Management Office (DMO). Although these sums are very secure the rate of interest is usually lower than the market rate, however Treasury Bills are a valuable tool in providing security and liquidity whilst the DMO offers a variety of investment terms and is a valuable source of investment should credit ratings of other financial institutions result in a reduction in the number of counterparties that meet the Council's minimum credit rating criteria. There is no limit on the amount that can be invested with other local authorities in total, although there is a limit of £6 million with each individual local authority.

10.4 Country Limits

The Council has determined that it will only use approved counterparties from the UK and those countries with a minimum sovereign credit rating of AA or equivalent from the relevant rating agencies.

In a similar way that individual counterparties have a maximum investment limit, countries other than the UK will also have a limit.

10.5 Investment Strategy

The Council's funds are managed in-house and are mainly cash flow based but there is a core balance that could be available for investment for longer periods (2-3 years). Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months) and in respect of commercial property investment, this will be limited to the amount included in the Capital Programme.

The bank rate rose in November 2017 but no further increases are forecast until the end of 2018 and then to rise steadily from thereon (see Section 7). The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile without compromising the Council's priority of security of the investments.

For 2018/19 the Council has budgeted for investment returns based on the principles set out in this strategy including the forecast position on interest rates.

For its cash flow generated balances the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest. At the present time these short dated deposits are paying interest rates below base rate but they provide a good level of liquidity to help manage the Council's cash flow.

10.6 Allocation of Investment returns between GF and HRA

As part of the introduction of HRA Self Financing a policy on the allocation of investments returns across the GF and HRA now forms part of the Annual Treasury Strategy.

The HRA holds balances and would benefit from cash flow advantages, which are amalgamated for the purposes of the overall investment activity of the Council. At the end of each year the transfer to the HRA of its share of the authority's overall investment returns will be agreed by the S151 Officer in consultation with the relevant officers based on the following principles:

- Equity
- Risk Sharing
- Minimising volatility between years

Returns from investing in commercial property will be allocated to the relevant fund where the Capital Programme / investment were made from.

10.7 End of year investment report

At the end of the financial year the Cabinet will receive a report on its investment activity.

GLOSSARY OF TERMS

Affordable borrowing limit – limit that the Council has to set under the CIPFA Prudential Code that shows how much the Council considers it can afford to borrow taking all its outgoings into consideration and how much income it considers it can generate.

Alternative financing arrangements – how the Council intends to finance its capital expenditure by other means besides borrowing.

Authorised limit – the amount the Council determines is the maximum that can be borrowed that is affordable and has been calculated in accordance with the legislation behind the CIPFA Prudential Code.

Borrowing requirement – how much the Council considers it needs to borrow to fund its spending plans.

CFR – Capital Financing Requirement – this calculation shows how much the Council needs to borrow or finance by some other measure to meet its planned capital spend.

Counterparty – the other party that participates when a loan or investment is placed.

CPI – Consumer Price Index – the Government's preferred measure of inflation, based on a set basket of goods and services. It excludes housing costs such as mortgage interest payments and council tax.

Credit arrangement – any quasi-loan, to ensure the legislation and Code pick up any unusual arrangements to provide funding other than from a straightforward loan

Credit default swap - A swap designed to transfer the credit exposure of fixed income products between parties. A credit default swap is also referred to as a credit derivative contract, where the purchaser of the swap makes payments up until the maturity date of a contract. Payments are made to the seller of the swap. In return, the seller agrees to pay off a third party debt if this party defaults on the loan. A CDS is considered insurance against non-payment. A buyer of a CDS might be speculating on the possibility that the third party will indeed default.

Credit limit – the maximum amount that can be lent to an individual organisation or group of organisations.

Credit rating – provided by one of the three credit rating agencies, an assessment of how likely the organisation is to repay any monies lent to it.

Creditworthiness - An assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default.

Debt cap (HRA) – the limit on the amount that can be borrowed by the HRA, set by central government.

Earmarked reserves – reserves that have been set aside for a specified purpose.

GDP – Gross Domestic Product – measures the output from the economy, if it rises then the economy is growing, if it falls the economy is in recession.

iTraxx - A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Illiquid investment – An investment that cannot easily be sold or exchanged for cash without a substantial loss in value.

Non-specified investment – as defined in Annex 2.

Prudential indicators – a series of calculated figures specified in the CIPFA Prudential Code which are used to assess how affordable and realistic the Council's spending and financing plans are.

PWLB – Public Works Loans Board – central government lending to other public sector bodies, specifically local government.

PWLB Certainty Rate – The PWLB sets various rates for borrowing. From 1 November 2012 the Government reduced the interest rates on loans from PWLB to Councils who provide information as required on their planned long-term borrowing and capital spending by 0.20%. This reduced rate is called the Certainty Rate.

Replacement borrowing – borrowing taken out to replace other borrowing or other forms of credit that have been repaid.

RPI – Retail Price Index – another inflation index, this one includes the cost of housing.

Specified investments – as defined in Annex 2.

Proposed Prudential Indicators 2017/18 revised, 2018/19 and forecasts for 2019/20 to 2020/21

CAPITAL EXPENDITURE

This is an estimate of the amount of investment planned over the period. As can be seen, not all investment necessarily has an impact on the Council Tax, schemes funded by grants, capital receipts or external contributions mean that the effect on the Council Tax is greatly reduced.

Capital Expenditure - General Fund £000s	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
Total Capital Expenditure	**2,295**	**18,523**	**857**	**857**	**857**
Financing - General Fund					
External contributions	(1)	(340)	-	-	-
Section 106	(64)	(87)	-	-	-
Coast protection grant	(74)	(4,888)	-	-	-
Other Government grants	(8)	(322)	-	-	-
Disabled Facilities Grant	(1,432)	(2,819)	(690)	(690)	(690)
Capital receipts	(62)	(1,730)	(67)	(67)	(67)
Direct revenue contributions	(104)	(3,773)	(100)	(100)	(100)
Earmarked reserves	(550)	(4,564)	-	-	-
Total Capital Financing	**(2,295)**	**(18,523)**	**(857)**	**(857)**	**(857)**
Net Financing need (External Borrowing)	**0**	**0**	**0**	**0**	**0**

Housing Revenue Account Capital Schemes £000	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
Total Capital Expenditure	**3,413**	**7,283**	**3,657**	**3,474**	**3,402**
Financing - Housing Revenue Account					
Major repairs reserve	(3,262)	(4,111)	(3,176)	(3,176)	(3,176)
Direct revenue contributions	(32)	(2,837)	(481)	(298)	(226)
Section 106	(102)	-	-	-	-
Capital receipts	-	(156)	-	-	-
Government grant	(17)	(179)	-	-	-
Total Capital Financing	**(3,413)**	**(7,283)**	**(3,657)**	**(3,474)**	**(3,402)**
Net Financing need (External Borrowing)	**0**	**0**	**0**	**0**	**0**

CAPITAL FINANCING REQUIREMENT

Each year, the Council finances the capital programme by a number of means, one of which could be borrowing. The Capital Financing Requirement (CFR) represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years. The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

CAPITAL FINANCING REQUIREMENT	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	6,158	5,912	5,676	5,449	5,231
Housing Revenue Account	45,099	43,435	41,771	40,107	38,443
Total	**51,257**	**49,347**	**47,447**	**45,556**	**43,674**

HRA LIMIT ON INDEBTEDNESS

The Council is required to report the level of the limit imposed (or subsequently amended) at the time of the implementation of self-financing by the Department for Communities and Local Government. This is to be compared to the Housing Revenue Account capital financing requirement.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	£000	£000	£000	£000
Limit on indebtedness	60,285	60,285	60,285	60,285	60,285
Capital Financing Requirement	45,099	43,435	41,771	40,107	38,443
Headroom	15,186	16,850	18,514	20,178	21,842

GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator compares the Capital Financing Requirement to the level of external debt and shows how much of the capital programme is financed from internal resources. The capital programme is partially funded in the short to medium term by internal resources when investment interest rates are significantly lower than long term borrowing rates. Net interest payments are, therefore, optimised.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	£000	£000	£000	£000
Capital Financing Requirement	51,257	49,347	47,447	45,556	43,674
External debt	45,870	43,898	42,076	40,312	38,592
Internal borrowing	5,387	5,449	5,371	5,244	5,082

OPERATIONAL BOUNDARY AND AUTHORISED LIMIT

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. It also takes account of other long term liabilities, which comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt. The Council has none of these at present.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	£000	£000	£000	£000
Operational boundary - borrowing	71,538	72,934	66,868	66,805	66,828
Authorised limit - borrowing	79,486	81,038	74,298	74,228	74,253

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	%	%	%	%	%
General Fund	0.51	0.53	0.23	0.09	-0.04
Housing Revenue Account	47.52	71.98	48.65	47.49	47.11

INTEREST RATE EXPOSURE

Tendring District Council currently has all its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. This indicator is set to control the Council's exposure to interest rate risk.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	£000	£000	£000	£000
Upper limit for Fixed Interest Rates on debt	51,257	49,347	47,447	45,556	43,674
Upper limit for Variable Interest Rates on debt (based on 30% of the fixed rate limit)	15,377	14,804	14,234	13,667	13,102

TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS (excluding property)

Interest rate risk is also affected by the proportion of the investments invested at fixed rates for longer periods, especially in a period when rates are expected to rise.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Forecast	2020/21 Forecast
	£000	£000	£000	£000	£000
Limits on the total principal sum invested to final maturities longer than 364 days	3,500	3,500	3,500	3,500	3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

This indicator is set to control the Council's exposure to refinancing risk. The limits are set for each age range to ensure that the Council avoids too many fixed rate loans being matured at one time and spreads the maturity across several periods. The percentages for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

PRUDENTIAL INDICATOR	Upper limit	Lower limit	Estimated outstanding debt maturity % at			
	%	%	31/03/2018	31/03/2019	31/03/2020	31/03/2021
Under 12 months	25	0	4.15%	4.19%	4.27%	4.33%
12 months and within 24 months	30	0	4.02%	4.09%	4.15%	5.76%
24 months and within 5 years	60	0	12.79%	12.63%	15.55%	16.76%
5 years and within 10 years	75	0	22.73%	22.92%	20.13%	17.57%
10 years and above	95	25				
10-20 years			18.81%	17.90%	16.89%	15.76%
20-30 years			3.33%	2.61%	1.82%	0.95%
>30 years			34.17%	35.65%	37.21%	38.87%

TREASURY INDICATOR - EXPOSURE TO CREDIT RISK

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) using the rating applicable when it is taken out and taking the arithmetic average, weighted by the size of each investment. Investments in government instruments such as DMO, treasury bills and in local authorities are scored as 1.

TREASURY INDICATOR	2016/17 Actual	2017/18 to 31 Dec	2018/19 Upper limit
Average credit score for investments	1.56	1.43	2.00

SPECIFIED AND NON-SPECIFIED INVESTMENTS

This schedule sets out the specified and Non-Specified investments the Council may use in 2018/19.

Investments may be in the form of direct deposits, Certificates of Deposits (CDs), property or the purchase of financial instruments such as Treasury Bills, Bonds and Gilts.

SPECIFIED INVESTMENTS:
An investment is a Specified Investment if all of the following apply

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling
2. The investment is not a long term investment which is one that is due to be repaid within 12 months of the date on which the investment is made or one which the local authority may require to be repaid within that period.
3. The investment is not defined as capital expenditure by regulations
4. The investment is made with a body or in an investment scheme of high credit quality or the investment is made with the following public sector bodies.
    a. UK Government
    b. Local authority
    c. Parish council or community council

Where an investment is being made with a UK nationalised or part nationalised bank this will be treated for the purposes of classification as a Specified or Non-specified investment as being invested with the UK Government.

High credit quality
For a counterparty to meet the high credit quality criteria for specified investments, that counterparty must meet as a minimum the ratings of the three credit rating agencies listed below, and not be the subject of any adverse indications from the following sources.

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

Ratings	**Fitch**	**Moodys**	**Standard & Poors**
Short term	F1	P-1	A-1
Long term	A-	A3	A

NON SPECIFIED INVESTMENTS

A maximum of £3.5m may be held, in aggregate, in Non-Specified Investments

The only Non-Specified investments that the Council will use in 2018/19 are investments for periods of longer than 12 months with any institution or investment instrument that would have been classed as a Specified Investment if the investment had been for less than 12 months or property. *The Council currently holds an investment property in Clacton. The historic cost of this property (including stamp duty) is £3.245 million.*

Appendix B

Tendring
District Council

PRO BONO OMNIUM
FOR THE GOOD OF ALL

TREASURY MANAGEMENT PRACTICES

Including the Council's

TREASURY MANAGEMENT POLICY STATEMENT

January 2018

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 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, and any financial instruments entered into to manage these risks.*

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."*

MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

These are as follows:

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

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

TMP1 Risk Management

The Code states
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 robust due diligence procedures cover all external investment.

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~~ This organisation will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its treasury management 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 or derivative arrangements.

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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: -
    - The quality financial press
    - Market data
    - Information on government support for banks and
    - The credit ratings of that government support
    - In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

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		£6,000,000 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 £6m 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 *365* 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.

For investments that are not part of treasury management activity, the Council will ensure that relevant due diligence has taken place before sums are invested, such as in accordance with the Commercial Property Investment Strategy.

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 maintaining balances held in the Council's main bank accounts in accordance with the counterparty limit as appropriate 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 no overdraft facility with Lloyds, but keeps up to £1 million with the bank overnight so this is not required..
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 Finance 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 Inflation risk management

The risk that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

The Code states:

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

1.5.1 Guidelines for managing inflation risk

Inflation risks associated with treasury assets and liabilities will be assessed as part of the overall Financial Strategy process

1.6 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 is 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.

1.6.1 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 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.

1.6.2 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).

1.6.3 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 77), capital expenditure (78), capital financing requirement (79), debt (80), financing costs (81), investments (82), net borrowing (83), net revenue stream (84), and other long term liabilities (85).

1.6.4. Capital Receipts Generated by the HRA

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

1.7 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.

1.7.1 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**

1.7.2. 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.

1.7.3 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.

1.7.4 . 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.

1.7.5. 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.

1.8 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.

1.8.1. 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 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.

1.8.2. 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.

1.8.3 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.

1.9 ~~*Market*~~ *Price* 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.

1.9.1 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 full council
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: -

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

a) Comparison of return on investments to any investment benchmark
a) 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 are measurable against the 7 day LIBOR.

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**

These arrangements will also apply to the performance and success of non-treasury investments, with the criteria used based on those in the appendix to the current Capital Strategy.

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 Statement and Prudential and Treasury Indicators.

4.7 Second Markets in Financial Instruments Directive (MiFID II)

This EU directive came into force on 3 January 2018 and is concerned with how financial institutions deal with customers and the level of expertise of their customers. All local authorities were categorised as retail clients under MiFID II (previously they were all categorised as professional clients), but with the option to choose to opt up to professional status, provided criteria were met around the size of the portfolio held, the number of deals completed, the governance arrangements of the authority and the level of experience of the treasury management staff.

There are more safeguards over the status of retail clients, with much more information required to be provided by the financial institution, and additionally certain instruments such as certificates of deposit and treasury bills only able to be purchased by professional clients (who also have to have a Legal Entity Identifier (LEI) issued by the London Stock Exchange). However, all the brokers the Council uses required the Council to opt up to professional status to be able to access their services and the treasury advisors also required the Council to opt up, as have some individual financial institutions with whom the Council places fixed term deposits.

***TMP Schedule G** sets out the organisations where the Council has opted up to professional status. The consideration of skills and experience of staff dealing with these organisations is especially critical.*

It is understood that this opting up process may need to be renewed annually, to confirm that the Council still meets the requirements to opt up.

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	o Negotiation and approval of deal. o Receipt and checking of brokers confirmation note against loans diary. o Reconciliation of cash control account. o Bank reconciliation

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

a) 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.

b) 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: -

a) 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 Finance 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 Finance 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 Financial Director system to be completed by 3.00 pm on the same day.

In the event of a system failure Relationship Manager at the bank would be contacted and the transfer completed via email with scanned signed authorisation.

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.

5.13 Non-treasury investments

The governance requirements for decision making and the arrangements to ensure that appropriate due diligence is carried out to support decision making for non-treasury investments are set out in the Commercial Property Investment Strategy.

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 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 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.

6.8 Non-treasury investments

Monitoring of these investments and reporting will be included within the Treasury Management Strategy Statement, the corporate budget monitoring reports and the annual review report on Treasury Management Activity and in accordance with the Commercial Property Investment Policy.

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 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(2) 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. *Where capital expenditure and investment is financed initially through internal cash reserves, allowing the requirement for borrowing to be deferred to future years, the impact on future liquidity is considered.*

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 2002

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

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

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

9.4 Local authorities

a) Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. 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 under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council will not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the 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 the Financial Services and Markets Act 2000.

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

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 and has also achieved IIP gold status.

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.

10.8 Non-treasury investments

Records will be kept by the Assets Team of their staff and the training they receive to support the Commercial Property Investment Strategy.

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 are 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 Statement
Annual Investment 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
Capital Programme
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. However S&P do not provide individual ratings and only Fitch supply support ratings.

The shaded ratings are those that meet the minimum rating for inclusion in the approved Counterparty list.

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

TMP Schedule A - Approved Counterparties - January 2018

KEY	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

Country/Counterparty	Max duration as per TMPs subject to HOFS agreement	Limit £m	Country Rating	Fitch Rating L Term	Fitch Rating S Term	Moody's L Term	Moody's S Term	S&P L Term	S&P S Term	CDS Status	Sector Suggested Duration (CDS Adjusted)
U.A.E (Sovereign limit based on lowest rating of the three agencies)		2	AA		-	Aa2	-	AA	-	-	Not Applicable
First Abu Dhabi Bank PJSC	36	2		AA-	F1+	Aa3	P-1	AA-	A-1+	-	0-12 months
Australia		4	AAA		-	Aaa	-	AAA	-	Monitoring	Not Applicable
Australia and New Zealand Banking Group Ltd	36	4		AA-	F1+	Aa3	P-1	AA-	A-1+	In Range	0-12 months
Commonwealth Bank of Australia	36	4		AA-	F1+	Aa3	P-1	AA-	A-1+	In Range	0-12 months
Macquarie Bank Ltd	24	3		A	F1	A2	P-1	A	A-1		6 months
National Australia Bank Ltd	36	4		AA-	F1+	Aa3	P-1	AA-	A-1+	In Range	0-12 months
Westpac Banking Corporation	36	4		AA-	F1+	Aa3	P-1	AA-	A-1+	In Range	0-12 months

TMP Schedule A - Approved Counterparties - January 2018

KEY	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

Country/Counterparty	Max duration as per TMPs subject to HOFS agreement	Limit £m	Country Rating	Fitch Rating L Term	Fitch Rating S Term	Moody's L Term	Moody's S Term	S&P L Term	S&P S Term	CDS Status	Sector Suggested Duration (CDS Adjusted)
Canada		4	AAA		-	Aaa	-	AAA	-	-	Not Applicable
Bank of Montreal	24	3		AA-	F1+	A1	P-1	A+	A-1	-	0-12 months
Bank of Nova Scotia	24	3		AA-	F1+	A1	P-1	A+	A-1	-	0-12 months
Canadian Imperial Bank of Commerce	24	3		AA-	F1+	A1	P-1	A+	A-1	-	0-12 months
National Bank of Canada	24	3		A+	F1	A1	P-1	A	A-1	-	6 months
Royal Bank of Canada	24	3		AA	F1+	A1	P-1	AA-	A-1+	-	0-12 months
Toronto Dominion Bank	36	4		AA-	F1+	Aa2	P-1	AA-	A-1+	-	0-12 months
Denmark		4	AAA		-	Aaa	-	AAA	-	In Range	Not Applicable
Danske Bank	36	3		A	F1	Aa3	P-1	A	A-1		6 months
Finland		3	AA+		-	Aa1	-	AA+	-	In Range	Not Applicable
OP Corporate Bank Plc	36	3				Aa3	P-1	AA-	A-1+	-	0-12 months
France		2	AA		-	Aa2	-	AA	-	Monitoring	Not Applicable
BNP Paribas	24	2		A+	F1	Aa3	P-1	A	A-1	In Range	6 months

TMP Schedule A - Approved Counterparties - January 2018

KEY			
	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

				Fitch Rating		Moody's		S&P			
Country/Counterparty	**Max duration as per TMPs subject to HOFS agreement**	**Limit £m**	**Country Rating**	**L Term**	**S Term**	**L Term**	**S Term**	**L Term**	**S Term**	**CDS Status**	**Sector Suggested Duration (CDS Adjusted)**
Credit Agricole Corporate and Investment Bank	24	**2**		A+	F1	A1	P-1	A	A-1	In Range	6 months
Credit Industriel et Commercial	24	**2**		A+	F1	Aa3	P-1	A	A-1	-	6 months
Credit Agricole SA	24	**2**		A+	F1	A1	P-1	A	A-1	In Range	6 months
Societe Generale	24	**2**		A	F1	A2	P-1	A	A-1	Monitoring	6 months
Germany		**4**	AAA		-	Aaa	-	AAA	-	In Range	Not Applicable
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	36	**4**		AA-	F1+	Aa1	P-1	AA-	A-1+	-	12 months
Landesbank Baden Wuerttemberg	24	**3**		A-	F1	Aa3	P-1	-	-	-	6 months
Landesbank Hessen-Thueringen Girozentrale (Helaba)	24	**3**		A+	F1+	Aa3	P-1	A	A-1	In Range	0-12 months
Landwirtschaftliche Rentenbank	36	**4**		AAA	F1+	Aaa	P-1	AAA	A-1+	-	24 months

TMP Schedule A - Approved Counterparties - January 2018

KEY	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

				Fitch Rating		Moody's		S&P			
Country/Counterparty	**Max duration as per TMPs subject to HOFS agreement**	**Limit £m**	**Country Rating**	**L Term**	**S Term**	**L Term**	**S Term**	**L Term**	**S Term**	**CDS Status**	**Sector Suggested Duration (CDS Adjusted)**
NRW.Bank	36	4		AAA	F1+	Aa1	P-1	AA-	A-1+		24 months
Luxembourg		4	AAA		-	Aaa	-	AAA	-	-	Not Applicable
Netherlands		4	AAA		-	Aaa	-	AAA	-	In Range	Not Applicable
ABN AMRO Bank N.V	24	3		A+	F1	A1	P-1	A	A-1	-	6 months
Bank Nederlandse Gemeenten	36	4		AA+	F1+	Aaa	P-1	AAA	A-1+	-	24 months
Cooperatieve Rabobank U.A.	24	3		AA-	F1+	Aa2	P-1	A+	A-1	In Range	0-12 months
ING Bank NV	24	3		A+	F1	Aa3	P-1	A+	A-1	In Range	0-12 months
Singapore		4	AAA		-	Aaa	-	AAA	-	-	Not Applicable
DBS Bank Ltd	36	4		AA-	F1+	Aa1	P-1	AA-	A-1+	-	0-12 months
Oversea Chinese Banking Corporation Ltd	36	4		AA-	F1+	Aa1	P-1	AA-	A-1+	-	0-12 months
United Overseas Bank Ltd	36	4		AA-	F1+	Aa1	P-1	AA-	A-1+	-	0-12 months
Sweden		4	AAA		-	Aaa	-	AAA	-	In Range	Not Applicable

TMP Schedule A - Approved Counterparties - January 2018

	KEY	Country or counterparty type/grouping meeting minimum rating criteria			Banks meeting minimum rating criteria	Multi Lateral Development Banks					
				Fitch Rating		Moody's		S&P			
Country/Counterparty	**Max duration as per TMPs subject to HOFS agreement**	**Limit £m**	**Country Rating**	**L Term**	**S Term**	**L Term**	**S Term**	**L Term**	**S Term**	**CDS Status**	**Sector Suggested Duration (CDS Adjusted)**
Nordea Bank AB	36	**4**		AA-	F1+	Aa3	P-1	AA-	A-1+	-	0-12 months
Skandinaviska Enskilda Banken AB	24	**3**		AA-	F1+	Aa3	P-1	A+	A-1	-	0-12 months
Swedbank AB	36	**4**		AA-	F1+	Aa3	P-1	AA-	A-1+	-	0-12 months
Svenska Handelsbanken AB	36	**4**		AA	F1+	Aa2	P-1	AA-	A-1+	-	0-12 months
Switzerland		**4**	AAA		-	Aaa	-	AAA	-	-	Not Applicable
Credit Suisse AG	24	**3**		A	F1	A1	P-1	A	A-1	In Range	6 months
UBS AG	24	**3**		AA-	F1+	Aa3	P-1	A+	A-1	In Range	0-12 months
U.K		**4**	AA		-	Aa2	-	AA	-	In Range	Not Applicable
Barclays Bank Plc	24	**3**		A	F1	A1	P-1	A	A-1	In Range	6 months
Close Brothers Ltd	24	**3**		A	F1	Aa3	P-1				6 months
Goldman Sachs International Bank	24	**3**		A	F1	A1	P-1	A+	A-1	Monitoring	6 months
HSBC Bank plc	36	**4**		AA-	F1+	Aa3	P-1	AA-	A-1+	In Range	0-12 months

TMP Schedule A - Approved Counterparties - January 2018

KEY	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

Country/Counterparty	Max duration as per TMPs subject to HOFS agreement	Limit £m	Country Rating	Fitch Rating L Term	Fitch Rating S Term	Moody's L Term	Moody's S Term	S&P L Term	S&P S Term	CDS Status	Sector Suggested Duration (CDS Adjusted)
Lloyds Banking Group plc	24	3		A+	F1	Aa3	P-1	A	A-1	-	0-12 months
Bank of Scotland Plc	24	3		A+	F1	Aa3	P-1	A	A-1	-	0-12 months
Lloyds Bank Plc	24	3		A+	F1	Aa3	P-1	A	A-1	-	0-12 months
Santander UK Plc	24	3		A	F1	Aa3	P-1	A	A-1	-	6 months
Standard Chartered Bank	24	3		A+	F1	A1	P-1	A	A-1	In Range	6 months
Sumitomo Mitsui Banking Corporation Europe Ltd	24	3		A	F1	A1	P-1	A	A-1	In Range	6 months
UBS Ltd	24	3		AA-	F1+	A1	P-1	A+	A-1	In Range	0-12 months
Building Societies											
Coventry	24	3		A	F1	A2	P-1			-	6 months
Nationwide	24	3		A+	F1	Aa3	P-1	A	A-1	-	6 months
UK Nationalised/part nationalised banks											
Royal Bank of Scotland Group plc	12	3		BBB+	F2	A2	P-1	BBB+	A-2	-	Not Applicable

TMP Schedule A - Approved Counterparties - January 2018

KEY	Country or counterparty type/grouping meeting minimum rating criteria	Banks meeting minimum rating criteria	Multi Lateral Development Banks

Country/Counterparty	Max duration as per TMPs subject to HOFS agreement	Limit £m	Country Rating	Fitch Rating L Term	Fitch Rating S Term	Moody's L Term	Moody's S Term	S&P L Term	S&P S Term	CDS Status	Sector Suggested Duration (CDS Adjusted)
National Westminster Bank Plc	12	3		BBB+	F2	A2	P-1	BBB+	A-2	-	Not Applicable
The Royal Bank of Scotland Plc	12	3		BBB+	F2	A2	P-1	BBB+	A-2	-	Not Applicable
U.S.A		3	AAA		-	Aaa	-	AA+	-	In Range	Not Applicable
Bank of America NA	24	3		A+	F1	Aa3	P-1	A+	A-1	-	0-12 months
Bank of New York Mellon, The	36	3		AA	F1+	Aa1	P-1	AA-	A-1+	-	24 months
Citibank, NA	24	3		A+	F1	A1	P-1	A+	A-1	In Range	0-12 months
JP Morgan Chase Bank NA	24	3		AA-	F1+	Aa2	P-1	A+	A-1	In Range	0-12 months
Multi Lateral Development Banks											
European Investment Bank	36	4		AAA	F1+	Aaa	P-1	AAA	A-1+	-	24 months

Appendix B TMP Schedule B

Schedule of Countries meeting the Council’s minimum Sovereign rating limit

Fitch Rating	Country	Date approved for Inclusion on List	Approved By
AAA			
	Australia	21/4/2010	K Neath
	Canada	21/4/2010	K Neath
	Denmark	21/4/2010	K Neath
	Germany	21/4/2010	K Neath
	Luxembourg	21/4/2010	K Neath
	Netherlands	21/4/2010	K Neath
	Norway	21/4/2010	K Neath
	Singapore	21/4/2010	K Neath
	Sweden	21/4/2010	K Neath
	Switzerland	21/4/2010	K Neath
AA+			
	Hong Kong	21/4/2010	K Neath
	Finland	21/4/2010	K Neath
	U.S.A	21/4/2010	K Neath
AA			
	Belgium	21/4/2010	K Neath
	France	1/3/2013	R Barrett
	Kuwait	7/4/2014	R Barrett
	New Zealand	7/4/2014	R Barrett
	Qatar	7/4/2014	R Barrett
	UAE	21/4/2010	K Neath
	U.K	01/03/2013	R Barrett

Appendix B TMP Schedule C

Terms and Conditions of Bank Overdraft

The Council does not currently have a bank overdraft arrangement, but does plan to keep close to £1m with Lloyds in the current accounts.

Appendix B

TMP Schedule D

List of legal statute, guidance, Codes of Practice under which the Council's treasury activities will be carried out.

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 f(Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009

- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.

- Allocation of financing costs to the HRA (housing authorities) – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)

- CIPFA's Treasury Management Codes of Practice (2017) and Guidance Notes (2011)
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

- PWLB circulars on Lending Policy
- Bank of England UK Money Markets Code 2017 (this succeeds the Non Investment Products Code (NIPS)) - for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct

Appendix B TMP Schedule E

Schedule of External Service Providers.

External service providers are used
Money Brokers
Banking Services
Treasury Advisors
Leasing Consultancy Advisors

Money Brokers and services they are authorised to provide.

Broker	**Authorised to provide the following services**	**Regulatory status**	**Date approved for Inclusion**	**Approved by**
King & Shaxson	Treasury Bills, CDs, Gilts, and any other financial instrument where electronic custody is required	Financial Services Authority. Member of London Stock Exchange and OFEX.	16 Nov 2007 Decision No. 1449	Finance Portfolio Holder
Tullett Prebon	Fixed term Deposits with counterparties or short term loans	Financial Services Authority.	December 2003 Decision No. not on COMAD	Finance Portfolio Holder
Sterling	Fixed term Deposits with counterparties or short term loans	Financial Services Authority.	December 2003 Decision No. not on COMAD	Finance Portfolio Holder
RP Martin	Fixed term Deposits with counterparties or short term loans, also Treasury Bills and associated custodial services	Financial Services Authority.	16 Nov 2007 Decision No. 1449	Finance Portfolio Holder
Tradition (UK) Ltd	Fixed term Deposits with counterparties	Financial Services Authority.	24 Aug 2012	Head of Resource Management

	or short term loans			

Broker	Contact Number	Contact name(s)
King & Shaxson	0207 9298524	Robert den Hollander
Tullett Prebon	0207 2007393	Nick Mordey
Sterling	0207 8947742	Steve Clark
RP Martin	0207 8948698	Henry Street
Tradition (UK) Ltd	0207 4223566	Richard Mourgue

Banking Services

a) Name of supplier of service is Lloyds Bank plc
b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
c) The branch address is:
   1 West Avenue
   Clacton on Sea
   Essex
   CO15 1QP
d) The banking agreement has been tendered for a minimum of 3 years from 1 December 2014 with option to extend for 2 years, *which was taken up in 2017.* The agreement shall continue after the expiry of the minimum period unless and until terminated by either party giving not less than 6 months written notice, such notice to expire on or after the expiry of the minimum period.
e) Cost of service is variable depending on schedule of tariffs and volumes
f) Payments due monthly for the various charges

Treasury Advisory Services

g) Name of supplier of the service is Link Asset Services. Their address is 6th Floor, 65 Gresham Street, London EC2V 7NQ Tel: 0207 204 7624
h) Regulatory status: investment adviser authorised by the FCA
i) Contract commenced 1 September 2017 and runs for 3 years until 31 August 2020, with an option to extend for a further 2.
j) Cost of service is £6,000 in 2017/18 rising by £250 per annum.
k) Payments due annually in advance.

Leasing Consultancy Services

a) Name of supplier of the service is Capita Asset Services. Their address is: The Square, Basing View, Basingstoke, Hampshire RG21 4EB.
Tel: 0333 300 1922
b) Regulatory status: authorised and regulated by the Financial Conduct Authority
c) This is an annual contract.
d) There is no direct fee as the costs are included within the annual lease payments if any leases are taken out.

(Reproduced from the Annual Treasury Strategy for 2018/19)

SPECIFIED AND NON-SPECIFIED INVESTMENTS

This schedule sets out the specified and Non-Specified investments the Council may use in 2018/19.

Investments may be in the form of direct deposits, Certificates of Deposits (CDs), property or the purchase of financial instruments such as Treasury Bills, Bonds and Gilts.

SPECIFIED INVESTMENTS:

An investment is a Specified Investment if all of the following apply

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling
2. The investment is not a long term investment which is one that is due to be repaid within 12 months of the date on which the investment is made or one which the local authority may require to be repaid within that period.
3. The investment is not defined as capital expenditure by regulations
4. The investment is made with a body or in an investment scheme of high credit quality or the investment is made with the following public sector bodies.
    a. UK Government
    b. Local authority
    c. Parish council or community council

Where an investment is being made with a UK nationalised or part nationalised bank this will be treated for the purposes of classification as a Specified or Non-specified investment as being invested with the UK Government.

High credit quality

For a counterparty to meet the high credit quality criteria for specified investments, that counterparty must meet as a minimum the ratings of the three credit rating agencies listed below, and not be the subject of any adverse indications from the following sources.

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

Ratings	**Fitch**	**Moodys**	**Standard & Poors**
Short term	F1	P-1	A-1
Long term	A-	A3	A

NON SPECIFIED INVESTMENTS

A maximum of £3.5m may be held, in aggregate, in Non-Specified Investments

The only Non-Specified investments that the Council will use in 2018/19 are investments for periods of longer than 12 months with any institution or investment instrument that would have been classed as a Specified Investment if the investment had been for less than 12 months or property. *The Council currently holds an investment property in Clacton. The historic cost of this property (including stamp duty) is £3.245 million.*

Appendix B
TMP Schedule G

Organisations with which the Council has opted up to professional status under MiFIIDI at their request

Tendring District Council has currently opted up to professional status (from presumed retail status) with the following organisations:

- *Link Asset Services*
- *BGC Partners (holding company for Martin Brokers and Sterling Brokers)*
- *Tradition Brokers*
- *King and Shaxson, who have also obtained a Legal Entity Identifier (LEI) for the Council to continue to purchase treasury bills and certificates of deposit through them*
- *Coventry Building Society*