

Plymouth City Council

TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES

2012-13

1st April 2012

TREASURY MANAGEMENT PRACTICES, PRINCIPLES AND SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by Plymouth City Council. TMPs will be authorised by the Director for Corporate Services and subjected to the scrutiny by the Audit Committee, and will be kept under review and amended from time to time to take account of the current guidance from CIPFA and developments in local authority treasury practice generally, and Plymouth's practice in particular.

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TMPI RISK MANAGEMENT

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

General Statement

The Director for Corporate Services will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty 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 counterpart's diminished creditworthiness, and the detrimental effect on the Council's capital or current (revenue) resources.

Principle:

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. 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.

Schedule:

1.1.1. CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1. The Director for Corporate Services is responsible for setting a prudent criteria and the Council's treasury advisors will provide guidance and assistance in setting this criteria for assessing and monitoring the credit risk of investment counterparties.
2. The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3

agencies and other alternative assessment of credit strength including statements of potential government support, Credit Default Swap information for Countries and individual banks. The Council will also take account of information on corporate developments of and market sentiment towards investment counterparties.

3. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

Fitch Ratings

Moody's Investors Services

Stander & Poors

4. The approved investment counterparty list is determined by the following criteria: -

ORGANISATION	INVESTMENT CRITERIA	MAX AMOUNT	MAX PERIOD
Government Debt Office	Central Government Office: <ul style="list-style-type: none"> • DMADF • Treasury Bills (T-Bills) • Gilts 	No Limit No Limit 20% of overall investment portfolio	12 Months 12 Months 10 Years
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	2 Years
UK Banks	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£30m	12 Months
UK Building Societies	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£30m	12 Months
Nom-UK Banks	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset Value (CNAV). AAA with a Variable Net Asset Value (VNAV) .	20% of overall investment portfolio. Maximum £5m per fund	Call
Bonds Issued by Multilateral Development Banks	AAA or Government Guaranteed	20% of overall investment portfolio	10 years

UK Companies Corporate Bonds	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	12 Months
UK Companies Commercial Paper	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	9 Months
Other Money Market Funds and Collective Investment Schemes	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

5. The maximum period of lending is 12 months for deposits other than in Gilts/Multilateral Development Bank bonds where the limit will be 10 years.
6. The maximum value for any one investment transaction will be unlimited with the DMO (DMADF/T-Bills) or £30m for any other investment.
7. The maximum limit for bank/group to include money market deposits will be £30m.
8. The maximum limit for lending to a non UK bank will be £5m.
9. The limit on investments with non-UK banks will be 10% per country of total investments.
10. The maximum limit for investments in Money Market Funds will be 20% of the total investment portfolio with a limit in each fund of £5m or 0.5% of the total fund value.
11. The maximum investment in Multilateral Development Bank Bonds will be 20% of the total investment portfolio.
12. The maximum investment in UK Government Gilts will be 20% of the total investment portfolio.
13. The Maximum investment in Corporate Bonds will be 10% of the overall investment portfolio.
14. The Maximum investment in Commercial Paper will be 10% of the overall investment portfolio.
15. The Maximum investment in pooled funds, which meet the definition of a Collective Investment scheme per SI 2004 No 534 and subsequent amendments, will be limited to £10m.
16. **Authority' Bankers** – The Authority banks with the Co-operative Bank Plc. Where the rating falls below the minimum credit criteria set by the Council for investment purposes the Co-operative Bank will continued to be used for short term liquidity

requirements (overnight and weekend investments) and business continuity arrangements.

1.1.2 APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING/ REMOVING COUNTERPARTIES

Credit ratings for countries and individual counterparties along with credit default swaps and market sentiment can change at any time. The Director for Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed in 1.1.1 and amend the approved counterparty list when there is a change in the credit quality of individual counterparties or in banking structures e.g. on mergers or takeovers. Any revision to approved counterparties will be based on the advice of the Council's Treasury Management advisors.

The Director for Corporate Services will also adjust lending limits and periods when there is a change in the credit quality of individual counterparties. This is delegated on a daily basis to the Senior Accountant (Technical Accountants) subject to the approval of the Director for Corporate Services following recommendations by the Council's Treasury Management advisers and the Treasury Management Board.

The Senior Accountant (Technical Accountants) is responsible for maintaining the Council's approved lending lists adding or removing counterparties in accordance with approved criteria as authorised by the Director for Corporate Services.

1.1.3 COUNTERPARTY LIST AND LIMITS

A full individual list of counterparties based on the criteria will be maintained and approved by the Director for Corporate Services under delegated authority.

1.1.4 COUNTRY, SECTOR AND GROUP LISTINGS OF COUNTERPARTIES AND LIMITS

Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above as set out in the criteria in 1.1.1.

1.1.5 DETAILS OF CREDIT RATING AGENCIES' SERVICES AND THEIR APPLICATIONS

The Council considers the ratings of all 3 rating agencies (Standard & Poor's, Moody's and Fitch), as supplied by its Treasury Management advisers Arlingclose, when making investment decisions Credit rating information is just one of a range of instruments used to assess creditworthiness of institutions. The Council applies a minimum rating criteria based on the lowest denominator of the 3 rating agencies and where one of the ratings falls below the minimum the counterparty will be removed from the Council's approved list of investment counterparties for new

investments. Where investments are already in place advice is sought from the Council's advisers as to what action should be taken including the possibility of requesting the termination of the investment subject to the agreement of the counterparty.

1.1.6 DESCRIPTION OF THE GENERAL APPROACH TO COLLECTING/USING INFORMATION OTHER THAN CREDIT RATINGS FOR COUNTERPARTY RISK ASSESSMENT

The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share prices. Share prices of the counterparties used for investments are monitored on a daily basis by the Corporate Accountants (Technical) team with any variation in share price reported to the Treasury Management board via e-mail. Where movements are above 10% or within 10% of the year low further investigation is undertaken and/or advice sought from Arlingclose as to reasons and this is reported to members of the Treasury Management Board via e-mail.

In addition the Senior Accountant (Technical) reads quality financial press for information on Counterparties with any news impacting on investments reported to the Treasury Management board and the advice of the Council's Treasury Management advisers sought.

Other information sources used for monitoring the creditworthiness of counterparties are:

- Central Banks
- Government Departments
- Debt management Office
- Multilateral agencies
- Multilateral development banks
- Newspaper and periodicals and internet
- Financial data providers
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Rating agencies
- Bank and Building Society websites

1.2 LIQUIDITY RISK MANAGEMENT

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

Principle

The Director for Corporate Services will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Schedule:

1.2.1 AMOUNTS OF APPROVED MINIMUM CASH BALANCES AND SHORT TERM INVESTMENTS

CASH FLOW AND CASH BALANCES

The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 12 month cash flow forecast.

The Treasury team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the interest that can be earned.

Borrowing or lending shall be arranged in order to achieve this aim. The Treasury Management Team carries out daily activity with the objective of leaving the Council with a nil balance. The arrangements with the bank are such that no interest is received on balances in hand but an overdraft facility has been provided.

In order to achieve the maximum return from investments a daily cash balance of +/- £100,000 is the objective for the Council's bank account.

SHORT-TERM INVESTMENTS

The Council uses various Reserve accounts/Money Market Funds to manage liquidity requirements. These accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy. To cover liquidity requirements a minimum balance of £15m is available on call at all times.

1.2.2 Details of:

- **Standby facilities**

Up to 3.30 pm (the Chaps payment cut off time) payments can be made to any of the Council's deposit account facilities with approved banks subject to counterparty

limits. Any unexpected surplus funds can be lodged in these accounts. These accounts are available on call to cover daily cash flow requirements. Where funds are received by the Council after 3.30 pm any forecast surplus balance will be deposited in the Council's Co-operative bank Public Sector Reserve account receiving tiered interest rates depending on the size of deposits. These funds will only be held in this account overnight or over the weekend and the balance will be withdrawn to be added to cashflow balances on the next working day.

- **Bank overdraft arrangements**

A £2.4m overdraft has been agreed as part of the bank tender. The overdraft is assessed on a group basis for the Council's accounts. The overdraft rate agreed in the contract with the bank is 2% above base up to £100,000 and 5% above base for over £100,000

- **Short-term borrowing facilities**

The Council has access to temporary borrowing of up to 364 days through approved brokers on the money market. When the Council is able to forecast in advance that it will have a short term borrowing requirement on a particular day, in advance the Council will contact brokers with a view to securing some or all of the required borrowing subject to interest rates at that time. The approved brokers have been provided with the details of staff that are authorised to negotiate deals on behalf of the Council. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

- **Insurance/guarantee facilities**

No liquidity insurance/guarantee facilities have been made.

1.2.3 POLICY IN TERMS OF BORROWING IN AVANCE OF NEED

The Council will consider borrowing in advance to cover the capital programme in future years or to fund future debt maturities as part of its annual strategy. The Director for Corporate Services will monitor interest rates and credit risk and will consider such borrowing only where there is a clear business case for doing so.

1.3 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and using this in formulating its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points. These limits and strategy are set out in the annual Treasury Management Strategy Statement. This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

Principle:

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 the council's approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Schedule:**1.3.1 Minimum/maximum proportion of fixed/variable rate debt interest**

Borrowing/investments may be at a fixed or variable rate.

The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.

In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.

The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.

1.3.2 Details of approved interest rate exposure limits

The Council appointed Arlingclose Ltd. as a treasury management adviser to the council and part of their services is to assist the Council to formulate a view on interest rates. The Council may have exposure to fixed as well as variable borrowing interest rates. The Council's net exposure to variable interest rates is determined by the difference between money borrowed, and money lent out at any point in time which is at variable rates. However, the Council is also mindful that at any time its exposure depends also on fixed rate borrowings and lending which are due to mature within 12 months. In managing overall debt the Council may consider restructuring long-term debt into short-term debt to produce savings during periods

in which short-term borrowing rates are lower and long-term borrowing rates are not expected to rise in the near future. The interest rate exposure limits are stated in the Annual Treasury Management Strategy and adjustments will be made during the year when necessary subject to approval by full Council.

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

The main impact of changes in interest levels is to monies borrowed and invested at variable rates of interest. The Treasury Management Strategy report outlines the view on interest rates for the year. The expected change in long term as well as short-term interest rates will determine the borrowing strategy to be implemented. Subsequently, in conjunction with the Council's treasury advisers, officers will continually monitor both the prevailing interest rates and the market forecasts and adopt a pragmatic approach to any changing market conditions. More detailed information is provided, along with the limits for fixed and variable rate exposure, in the Council's annual Treasury Management strategy report.

The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.

1.3.4 Policies concerning the use of financial derivatives and other instruments for interest rate management.

a. forward dealing

Consideration will be given to dealing from forward periods dependent upon market conditions. When the term of a loan from deal date to maturity date exceeds 365 days and the term of a deposit from deal date to maturity date exceeds 1 month the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies is required.

b. callable deposits

The Council will use callable deposits as part of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS. Callable deposits with maturity dates beyond 1 month will be taken subject to the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies.

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

The Council considers the use of LOBOs as part of its annual borrowing strategy. LOBO rates are periodically monitored and may be taken subject to the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies.

d. Derivatives to hedge against interest rate risk.

An example would be an interest rate swap used to exchange variable interest rates for fixed interest rates or vice versa reducing the risk of exposure to large levels of variable or fixed debt and balancing this against the mixture of variable and fixed rate investments.

Currently Local Authorities' legal powers to use derivative instruments remain unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently the Authority does not intend to use derivatives.

Should the position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives such as interest swaps and options, but this change in strategy will require Full Council approval.

1.4 EXCHANGE RATE

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

Principle:

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

Schedule:

1.4.1 Exchange rate risk management

This Council does not, on a day to day basis, have foreign currency transactions or receipts. Any receipt of foreign currency will be converted to sterling at the earliest opportunity.

If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.

At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has also determined that all its investments will be in Sterling.

1.5 REFINANCING RISK MANAGEMENT

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

Principle:

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

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

Schedule:**1.5.1 DEBT/OTHER CAPITAL FINANCING MATURITY PROFILING, POLICIES AND PRACTICES**

The Council will establish through its Prudential Indicators the amount of debt maturing in any year/period. The Council debt will be managed within the maturity limits set by the approved Prudential Indicators to ensure that the maturity profile of debt will not expose the Council to high levels of debt requiring refinancing in any one financial year. This takes into account all possible maturity dates for Lobo's which may mature at any option date if the lender alters the interest rate and the Council (borrower) takes the option to repay.

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) to fulfill the borrowing strategy stated in the Council's Treasury Management Strategy report
- b) the generation of cash savings at minimum risk
- c) to reduce the average interest rate
- d) to enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

All rescheduling will be reported to Cabinet at the meeting immediately following its action as part of the quarterly budget monitoring report.

1.5.2 PROJECTED CAPITAL INVESTMENT REQUIREMENTS

As part of the Local Government Act 2003 "The Prudential Code" for Capital Finance in local authorities has introduced new requirements for the manner in which capital spending plans are to be considered and approved. The Prudential Code gives local authorities the power to determine their own borrowing levels within a framework based around affordability, prudence and sustainability and

takes account of the next three financial years. The Director for Corporate Services prepares the five-year plan for capital expenditure for the Council in accordance with the statutory guidelines. The capital plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes. Financing of capital expenditure will be met from capital receipts, any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.

As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.

The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

1.5.3 POLICY CONCERNING LIMITS ON REVENUE CONSEQUENCES OF CAPITAL FINANCING.

The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.

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

1.6 LEGAL AND REGULATORY

Legal and regulatory risk is the that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

Principle:

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMPI(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 Council, particularly with regard to duty of care and fees charged.

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

Schedule:

I.6.1 REFERENCES TO RELEVANT STATUTES AND REGULATIONS

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

- CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
- CIPFA Standard of Professional Practice on Treasury Management
- The Local Government Act 2003
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
- Pensions, England and Wales – The Local Government Pension Scheme (Management and investment of Funds) regulations 2009 SI 2009 No 393
- The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
- The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
- The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
- LAAP Bulletins
- Code of Practice on local Authority Accounting in the United Kingdom based on International Financial Reporting Standards
- Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

I.6.2 PROCEDURES FOR EVIDENCING THE ORGANISATION'S POWERS/AUTHORITIES TO COUNTERPARTIES

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

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

The Council's Financial Regulations contain evidence of the power /authority to act as required by section 151 of the Local Government Act 1972.

The Council prepares, adopts and maintains, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the overriding principles and objectives of its treasury management activities and, as an integral part of that Statement.
- Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

The Council will confirm, if required to do so by counterparties, the powers and authorities under which the Council effects transactions with them.

1.6.3 REQUIRED INFORMATION FROM COUNTERPARTIES CONCERNING THEIR POWERS/AUTHORITIES

Lending shall only be made to counterparties on the Council's authorised lending list, which has been approved by the Council's Director for Corporate Services. This list has been compiled based on the credit ratings supplied by Standard & Poor's, Fitch Ratings and Moody's Investor Services and the advice of the Council's Treasury Management advisers.

The Council will only undertake borrowing from approved sources such as the PWLB, Local Authorities, and organisations such as the European Investment Bank and from commercial banks. Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

The approved sources of borrowing are contained in TMP 4.

1.6.4 STATEMENT ON THE ORGANISATION'S POLITICAL RISKS AND MANAGEMENT OF SAME.

The Director for Corporate Services shall take appropriate action with the Council, the Chief Executive and the Leader of the Administration to respond and manage appropriately political risks such as change of majority Group, Leadership in the Council, change of Government etc.

1.6.4.1 Monitoring Officer

The monitoring officer is the Assistant Director for Democracy and Governance; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.4.2 Chief Financial Officer

The Chief Financial Officer is the Director for Corporate Services; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he/she has concerns as to the financial prudence of its actions or its expected financial position.

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

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

Principle:

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

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.

Schedules:

1.7.1 DETAILS OF SYSTEMS AND PROCEDURES TO BE FOLLOWED, INCLUDING INTERNET SERVICES

Authority:

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the Senior Accountant (Technical) or other authorised officers
- All loans over 1 year and investments over 1 month require the prior approval of the Director for Corporate Services or the Assistant Director of Finance, Efficiencies, Technology & Assets.

Occurrence:

A detailed register of loans and investments is maintained in the Logotech (Treasury Management) system. An authorised member of the Treasury management team independently checks the register to the ledger balance. Adequate and effective cash flow forecasting records are maintained on a spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Cashflow\2012-13\Cash Flow Forecast 12-13 - Updated for actuals.xls) for the following year and updated on a daily balance with actual income and payments supporting the decision to lend or borrow. A manual diary is also kept and updated with all due principal and interest payments. A written confirmation is received promptly from the Council's brokers as well as the lending or borrowing institution. All transactions placed through the brokers are confirmed by a broker note showing details of the loan arranged.

Completeness:

The loan register, which is also maintained as back-up on an Excel spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Dealing\2012-13\dealing record 12-13.xls) is updated to record all lending and borrowing. This includes the date and the amount of the transaction, the name of the lender/borrower, maturity date, interest rates, brokerage fees etc.

Measurement:

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Logotech (Treasury Management) system.

The Logotech system automatically calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders. Average weighted principal interest rates and debt management expenses are calculated monthly using information from the financial ledger, spreadsheet working papers and accrual prints from the Logotech system. Rates generated are compared against the Council's Treasury Strategy Statement and assumed budget rates. These interest and expense rates are then used to calculate the principal, interest and debt management expense charged to the Capital Financing budget.

Timeliness:

The Logotech system prompts the Treasury Officer that money borrowed or lent is due to be repaid, thereby avoiding the incurring of penalties or overdraft charges, which is due to late payment. All future repayments are recorded on the cash flow forecast and the manual diary.

Regularity:

All lending is only made to approved institutions.

All loans raised and repayments made go directly to and from the institutions bank account.

Authorisation limits are set for every institution (see 1.5.1.6.). Brokers have an up to date list of named officials authorised to perform loan transactions. There is adequate insurance cover for employees involved in loan management and accounting. The control totals on the Treasury Management system for borrowing and lending are regularly reconciled with the ledger balance sheet codes by an assistant accountant on the corporate accountancy (technical) team. There is a clear separation of duties in the Section between the repayment of a loan and its checking and authorisation. The bank reconciliation is carried out monthly from the bank statement to the financial ledger. The corporate accountancy (technical) staff dealing with treasury management team also has an up to date financial code list for all interest and principal used for coding of creditors and office cash transactions.

Internet Banking:

The Council's online banking service provided by the Co-operative bank provides details of transactions and balances are available as required, and the system also holds historic data. This service is used to update the Council's cashflow and calculate required/available funds on a daily based used for funding/investment decisions. The service is also used to transmit Chaps payments for deposits/loan repayments and other large payments where same day receipt is required. Officers access to the system is required for account/balance enquiry, the input of chaps and the authorisation of Chaps payments.

Security:

The Logotech system can only be accessed by a password.

Payments are only authorised in a formal CHAPS transfer request document by officers authorised to approve such transactions. The bank transfer (Chaps) facility system (Financial Director) provide by the Co-op bank is also password protected with internal controls for input and approval. Each officer authorised to use the internet banking system is issued with a pin protected random number generator which is required to be entered on log-in to the site to enable access. Officers set up on the internet banking service to input/authorise Chaps payments are as follows:

Input:

Senior Accountant (Technical)
Accountants (Technical)
Assistant Accountant (Technical)

Authorisation:

Director for Corporate Services
Assistant Director of Finance, Efficiencies, Technology & Assets.
Head of Finance
Head of Value for Money & Efficiencies
Strategic Finance Manager
Group Accountant

Substantiation:

The Treasury Management system balances are proved to the balance sheet ledger codes at the end of each quarter and at the financial year-end. Working papers are retained for audit inspection.

A debt charge/investment income listing is produced every time the debt charges/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year-end and this document is retained for audit inspection.

The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with best value ACOP accounting practice by reflecting the market value of the fund in the balance sheet. This will be agreed with Council's external auditors.

Internal Audit:

Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

1.7.2 EMERGENCY AND CONTINGENCY PLANNING ARRANGEMENTS

There are a number of systems/procedures essential to the workings of the treasury management team in the management of the council's cash flow and borrowing and investment activities. The key items are:

1. Treasury Management files held on S:\Corporate Resources\New Finance\Treasury Management
2. Logotech loan/investment register system
3. Connection with the Co-op Bank
4. Contact with brokers and counter-parties
5. Office Cover

1.7.2.1 Treasury Management files

The files held on the S drive of the Council's network are essential for:

- the recording and forecasting the Councils cash flow for anything up to one year ahead (especially critical to ensure cash available to cover creditors/payroll one or two days ahead);
- recording and calculating the cash available/need on a daily basis from financial data downloads from the Co-op Bank;
- recording all loans/investments undertaken by the Council together with deposits into the Council's various bank Deposit accounts;
- a variety of other administration tasks such as dealing confirmations.

As the TM files are held on the S drive these are backed up at the end of the day along with all other PCC corporate drives. This should suffice as a safeguard. There is also the added safeguard in that all Council loans and deposits are held on the Treasury Management system (Logotech) – see below.

A manual diary is also kept recording all major receipts and payments including future Chaps payments that need to be made.

1.7.2.2 Logotech Loans/Investment register

This system records all loans and deposits activity of the TM team. It is reconciled to the ledger quarterly and provides reports, accruals and back up information for monitoring and the annual accounts. It also produces paperwork for deposits used in the input and authorisation of Chap payments.

This is an essential system for the control and upkeep of the council's loans and deposits. Loss of this data would cause major disruption to the work of the TM team and risk inaccurate records in the accounts along with delaying the production of these accounts. This system is held on the C drive of a PC. To safeguard this data daily backups are made to the S drive. Records of loans and deposits are also held on the S drive in the Treasury Management folder.

1.7.2.3 Internet Banking

In the event of complete failure of Financial Director due to system or internet problems it will be necessary to telephone the FD helpline on 08457 616616 for status update and if necessary to provide balance information to ensure that investment/borrowing decisions can be based on adequate information.

Financial Director also enables the Council to make Chaps payments for deposits, loan repayments and other large creditor payments. Should FD fail there are back-up procedures in place where Chaps payments can be made manually. This requires a fax to be sent to the Co-op bank on 0161 8392163. This fax requires the payment amount and the payee, bank, bank sort code and account number to be credited and must be signed by a bank authorised signatory.

The internet connection with the bank is essential but, provided the telephone system is working and faxes can be received/sent, the Treasury Management function could be undertaken for a few days without it.

1.7.2.4 Contact with Brokers and Counterparties

Most loans undertaken by the council are brokered by a third party. These brokers contact the council on a daily basis and provide information on the rates available in the market. These rates are also used when considering investments together with direct rates e-mailed to members of the treasury management team on a daily basis. In the main investments are agreed directly with the banks where higher rates can be achieved.

Without the information from brokers the Council would be restricted in its investment decisions and the availability of any borrowing required.

The telephone numbers required are:

<u>Broker</u>	<u>Contact</u>	<u>Tel. No.</u>
Martin Brokers	Shusmita Chaudury	0207 4699580
Sterling Brokers	Jim Risley	0207 5623456
Tullet Prebon	Jon Hurley	0207 2007042
London Currency Brokers	Roger Lane	0207 7394444
Tradition	Alex Cicopalus	0207 4223566

The Council also deals directly with Barclays, Bank of Scotland, Santander UK and Royal Bank of Scotland. Contact with these counterparties is essential for cash management. Telephone/fax access to them allows the Council to request transfer of funds or notification of impending Chaps payments. Contact is required as follows:

Barclays	- Withdrawals by fax – 0845 9645511 – by 3.00 pm - Phone contact 0845 6016047
Bank of Scotland	- Withdrawals by fax – 0845 6011445 – by 2.00 pm - To confirm receipt of fax – 0845 6048129

- Santander UK
- Withdrawal by phone (password required) – 0845 6066358 by 11.30
 - Withdrawal by fax – 0845 6066351 by 11.30 am
 - Investment /withdrawal notification by e-mail – RMT@santander.com over £5m
- RBS
- Withdrawal by fax – 0845 3003349 – by 3.15 pm
 - Phone contact – 01752 274606

As a back-up the telephone numbers of brokers are kept in the front of the diary and the numbers for direct contact counterparties on their individual lever- arch files. If phone lines are down contact with brokers/counterparties could be made by mobile phone. Faxes would need to be sent from a site with an available phone line/fax.

1.7.2.5 Office Cover

The minimum amount of office cover required for adequate Treasury Management controls to be maintained is one member of the treasury management team. However if any Chaps payments are required this will need the availability of an authorised officer.

This leaves the TM function vulnerable to situations such as local transport gridlock or epidemic diseases, where large numbers of staff would be unable to get to work.

Chaps payments using the Co-op internet banking system can be undertaken as long as the appropriate officers to input and authorise have their pin activated random number generator available. The co-op website is available using internet access on any site including at home.

There are currently 5 Members of staff that can input Chaps payments and 9 that can authorise these payments.

1.7.3 INSURANCE COVER DETAILS.

The Council has ‘**Fidelity**’ insurance cover with Chartis. This covers the loss of cash by fraud or dishonesty of employees up to the sum of £10m in the year and an excess of £10,000 only in one occurrence.

The Council also has a ‘**Professional Indemnity**’ and a ‘Public Liability and Official Indemnity’ insurance policy with Chartis, which cover loss to the Council from the actions and advice of its officers that are negligent and without due care, while acting within as well as outside the scope of their official duties. The total sums insured for these policies are £5m and £50m respectively with an aggregate excess of £5,000 and £250,000 respectively.

The Council also has a '**Business Interruption**' (or an '**Increased Cost of Working**') cover as part of its property insurance with Travelers. The total sum insured is £15m with an excess of £100,000.

1.8. MARKET VALUE OF INVESTMENTS RISK MANAGEMENT

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

Principle:

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

Schedule:

1.8.1 DETAILS OF APPROVED PROCEDURES AND LIMITS FOR CONTROLLING EXPOSURE TO INVESTMENTS WHOSE CAPITAL VALUE MAY FLUCTUATE (GILTS, CDS, etc.)

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

1.8.2 ACCOUNTING FOR UNREALISED GAINS/LOSSES

The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice.

TMP 2 PERFORMANCE MEASUREMENTS

Principle:

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

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

Schedule:

2.1 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY

Best value reviews will include the production of plans to review the way services are provided by

- Challenging
- Comparing performance
- Consulting with other users and interested parties
- Applying competition principles

in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

2.2 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

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

- regular meetings of the Treasury Management Board.
- reviews with our treasury management consultants
- quarterly review in budget monitoring report
- mid-year review to Audit committee
- annual review as reported to committee
- comparative reviews/benchmarking

The Council is a member of the CIPFA Treasury management benchmarking club. The club enables comparison with other authorities for its investment and debt positions and activities. Data is provided for comparison on an annual basis.

The Council's Treasury Management advisers review the existing debt portfolio and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.

The Council's Treasury Management advisors compare the performance of the Council's in-house investments, both in terms of risk and return, with funds managed by other client Local Authorities and report quarterly on the risk /return score ratings comparing the full client base and a comparison of unitary authorities.

2.2.1. Periodic reviews during the financial year

There is a regular treasury management board meeting attended by the Senior Accountant (Technical), the Director for Corporate Services, the Assistant Director of Finance, Efficiencies, Technology & Assets, and the Head of Finance.

These meetings include discussion on investments and borrowing strategies, change in market, counterparty and credit conditions and a review of investment and loan levels. There is also a monthly strategy and review meeting to include review of actual activity against the Authorised Borrowing Limit. Capital Financing budget and Treasury Management Strategy.

This will include:

- Total debt including average rate and maturity profile
- Total investments including average rate and maturity profile
- Transactions in the period since the last meeting
- Cash flow forecast update
- Counterparty lending against limits
- Monitoring position – latest forecast against budget.

2.2.2 Reviews with management consultants

Members of the Treasury Management Board hold reviews with our consultants (Arlingclose) on a quarterly basis to review the performance of the investment and debt portfolios.

2.2.3 Annual review after the end of the financial year

An Annual treasury Report is submitted to Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios.

The report contains the following:-

- total debt and investments at the beginning and close of financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanation for variance between original and actual strategies
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential Indicators

2.2.4 Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Risk Management study
- CIPFA Benchmarking Club
- Arlingclose risk return comparators of client base

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

- Compliance to CIPFA Code of Treasury Practice.
- Expenses contained within approved budget. Reviewed in the quarterly budget monitoring reports
- Review of benchmarking club data.

Treasury management activity is reviewed mid-year and at year end against strategy and prevailing economic and market conditions through the Audit Committee, Cabinet and Full Council.

The report will include:

- Total debt including average rate and maturity profile
- The effect of new borrowing and/or maturities on the above
- The effect of any debt restructuring on the debt portfolio
- An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period)
- Total investments including average rate, credit and maturity profile
- The effect of new investments/redemptions/maturities on the above
- The rate of return on investments against their indices for internally managed funds
- An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)
- A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY WITH REGARDS TO RISK AND RETURN:

2.4.1 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
- Ratio of PWLB and market debt (beginning and end of period)
- Ratio of fixed and variable rate debt (beginning and end of period)

2.4.2 Investment.

The performance of in house investment earnings will be measured against 7 day LIBID.

2.5 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY IN TREASURY MANAGEMENT,

2.5.1 Frequency and processes for tendering

Tenders are normally awarded on a three yearly basis with the option to extend for one year, if approved by the Cabinet Committee. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.5.2 Banking services

Banking services will be retendered or renegotiated every 3 years to ensure that the level of prices reflects efficiency savings achieved by the supplier and current pricing trends.

2.5.3 Money-broking services

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

2.5.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants.

2.5.5 Policy on External Managers

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

Principle:

The Council 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 issued relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedules:

3.1.1 Records to be kept

The Treasury section has a computerised treasury management system called Logotech. All loan and deposit transactions are recorded on the system as well as on an Excel spreadsheet. Full details of the system are covered in the user manual.

The following records will be used relative to each loan or investment:

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- 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 best value)
- Performance information (e.g. monitoring of actual against budget for debt charges, interest earned, debt management; also monitoring of average borrowed rate, investment returns, etc).

3.1.3 Issues to be addressed.

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

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

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

- a) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- b) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- c) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- d) consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- e) seek to reduce the overall level of financing costs/smooth maturity profiles through debt restructuring.

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

- a) consider the optimum period, in the light of cash flow availability and prevailing market conditions
- b) consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.
- c) determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

3.1.3.4. In respect of decisions regarding derivatives, the council will:

- a) be able to demonstrate that the derivative transaction has reduced the Council's overall exposure to treasury risks.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle:

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

Where the Council intends to use derivative instruments for the management of risk, these will be limited to those set out in the annual treasury strategy. The Council will seek proper advice and consider that advice when entering into arrangements to use such products to ensure full understanding of these products.

Schedules:

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

The Council is permitted to undertake the following activities:

- Managing cashflow
- Capital financing
- Borrowing including debt restructuring and debt repayment
- Lending including redemption of investments
- Banking
- Leasing
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).

The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities

- Term deposits with banks and building societies
- Certificates of deposit
- Callable deposits
- Investments in Money Market Funds , i.e. ‘AAA’ liquidity funds with a 60-day Weighted Average Maturity (WAM)
- Gilts
- Bonds issued by multilateral development banks
- Bonds issued by financial institutions guaranteed by the UK government
- Sterling denominated bonds by non-UK sovereign governments
- Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534
- Bonds and debt instruments issued by corporate bodies e.g.
 - Corporate Bonds
 - Commercial Paper

4.3 APPROVED TECHNIQUES

- Forward dealing
- LOBOs – lenders option, borrower’s option borrowing instrument

The use of structured products such as callable deposits

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

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

<u>On Balance Sheet</u>	Fixed	Variable
• Public Works Loans Board (PWLB) Loans	●	●
• European Investment bank (EIB)	●	●
• Long term money market loans including LOBOs	●	●
• Temporary money market loans (up to 364 days)	●	●
• Bank overdraft		●
• Stock issues	●	●
• Local bonds	●	
• Negotiable Bonds	●	●
• Commercial Paper	●	
• Medium Term Notes	●	
• Finance Leases	●	●
• Deferred Purchase	●	●

Internal Resources

- Capital receipts
- Revenue balances
- Use of Reserves

Other Methods of Financing

- Government and EC Capital Grants
- Other capital grants and contributions
- Lottery monies
- PFI/PPP
- Operating leases

Borrowing will only be undertaken in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director for Corporate Services has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources. The level of debt will be consistent with the treasury management Strategy and the Prudential Indicators.

4.5 INVESTMENT LIMITS

The Annual Investment Strategy within the treasury Management Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 BORROWING LIMITS

The Council's Treasury Management Strategy Statement and Prudential Indicators sets out the limits on borrowing.

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

Principle:

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

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

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

The Director for Corporate Services 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 Director for Corporate Services 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 schedules below.

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

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

Schedules:

5.1.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE / EXECUTIVE LEVELS

Full Council

- Receiving, reviewing and approving prudential indicators as part of the budget setting process (following receipt by Cabinet).
- Approval of the Treasury Management Strategy and Annual Investment Strategy and any subsequent amendments (following receipt by Cabinet).
- Receiving and reviewing reports on treasury management policies, practices and activities including a mid-year review and an annual report (following review by Audit Committee).

Cabinet

- Approval of amendments to adopted clauses and treasury management policy statement (following scrutiny by the Audit Committee).
- Budget consideration and approval.

Audit Committee

- Responsible for the scrutiny of treasury management strategy, activities and practices and approval of the treasury management practices.

Delegated to Director for Corporate Services

- The Director for Corporate Services will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- Approval of the segregation of responsibilities.
- Receiving and reviewing of the external audit reports and putting recommendations to the Audit Committee.
- Approving the selection of external service providers and agreeing terms of appointment in accordance with Financial Regulations.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The segregation of duties will be determined by the Director for Corporate Services.

Dealing	Group	Negotiation and approval of deal.
	Accountant/ Senior	Receipt and checking of broker's confirmation note
	Accountant/ Accountants	Receipts and checking of confirmation from deposit/loan counterparty
		Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Senior	Production of Direct debit form
	Accountant / Accountants/ Assistant Accountant	Processing of accounting entry
Authorisation / Payment of Deal	Senior Accountant/ Accountants/ /Assistant Accountant	Entry onto Financial Director (FD)

Authorisation / Payment of Deal	Authorised DoCS, ADFETA, HOF, Strategic Finance Managers and Group Accountants	Approval: Authorisation on FD/sign off direct debit and Chaps request
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5.3 TREASURY MANAGEMENT ORGANISATION CHART



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES

5.4.1 Treasury Management Board

The Treasury Management Board will meet on a regular basis at the discretion of the Director for Corporate Services and consists of:

Director for Corporate Services

Assistant Director of Finance, Efficiencies, Technology and Assets
Head of Finance
Senior Accountant (Corporate Accountancy - Technical)

In the absence of the Senior Account (Corporate Accountancy – Technical) an Accountant (Corporate Accountancy – Technical) will attend.

Its duties and responsibilities will include:

- Ongoing review of the Council's borrowing and Investment strategy considering counterparty limits, maturity periods and financial impact.
- Credit risk management. Reviewing credit rating changes, economic news, share price data and press information to consider the appropriateness of investments, their risk and any action required to mitigate this risk.
- Considering the council's borrowing position, reviewing rescheduling opportunities and proposed debt repayments as part of the management of risk.
- Discussions and recommendation on and for the Council's Treasury management strategy.
- Meeting with the Council's Treasury Management advisors to discuss Strategy. Considering the economic climate and forecast interest rates, ongoing investment and borrowing and current issues impacting on creditworthiness of financial institutions.
- Assessing the revenue and cash flow impact of any proposed action and how this fits into the previously set strategy. Agreeing revisions to this strategy and considering the financial impact of such revisions.
- Communicate and promote awareness of key treasury management issues and risks amongst senior managers and members.
- Aim to achieve the investments and borrowing targets as detailed in the council's MTFS.
- Monitor and report on significant variations to revenue account budgets as a result of changes to treasury management activity.

5.4.2 Director for Corporate Services

I. The Director for Corporate Services will:

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance
- Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy.

- In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
 - Establish a measurement and reporting process that highlights significant variations from expectations.
 - Submit regular treasury management reports as required to the council/cabinet/audit committee.
 - Receiving and reviewing management information reports.
 - Review the performance of the treasury management function and promote best value reviews.
 - Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
 - Ensure the adequacy of internal audit, and liaising with external audit.
 - Recommend on appointment of external service providers in accordance with council standing orders.
 - Provide regular updates to relevant Cabinet Members.
- 2 The Director for Corporate Services has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
 - 3 The Director for Corporate Services may delegate his power to borrow and invest to Group Accountants (Corporate Accountancy -Technical), Senior Accountant (Corporate Accountancy - Technical) and Accountants (Corporate Accountancy – Technical).
 - 4 The Director for Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
 - 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director for Corporate Services to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
 - 6 It is also the responsibility of the Director for Corporate Services to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.3 Assistant Director of Finance, Efficiencies, Technology & Assets

- The responsibilities of this post will include covering the full responsibilities of the Director for Corporate Services in their absence.
- Delegated authority to approve loans over 1 year and investments up to 10 years.
- Delegated authority to approve loan repayments/rescheduling.

5.4.4 Head of Finance

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Establish a measurement and reporting process that highlights significant variations from expectations.

5.4.5 Group Accountant (Corporate Accountancy – Technical)

- To provide cover in the absence of the Senior Accountant (Corporate Accountancy – Technical) and cover the full responsibilities of this post.

5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include: -

- Carrying out or delegating the execution of transactions to the treasury management team
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Treasury Management Board, Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets and Head of Finance.
- Identifying and recommending opportunities for improved practices.
- Prepare and update, making recommendations for including counterparties on the Council's lending list following the advice of the Council's Treasury Management advisors.
- Authority to borrow for periods up to 1 year and lending up to 1 month.. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Director for Corporate Services or Assistant Director of Finance, Efficiencies, Technology & Assets.
- Make recommendations on all lending up to 10 years and borrowing over 1 year maturity.
- Following approval by the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies undertake all borrowing over 1 year and deposits/investments up to 10 year maturity.

- Recommend early repayment of debt over one year and subject to the approval of the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or the Head of Finance arrange the repayment of these loans.
- Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments.
- Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, Annual Treasury Management report and Treasury Management Practices.
- Prepare budget for capital financing including all treasury management loan and investment activities including MTFF.
- Monitoring of Capital Financing Budget.
- Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits.

5.4.7 The Head of the Paid Service – the Chief Executive

The responsibilities of the post will be:-

- Ensuring that the system is specified and implemented.
- Ensuring the Director for Corporate Services reports regularly to the full Council/Cabinet on treasury policy, activity and performance.

5.4.8 Assistant Director for Democracy & Governance (in the role of monitoring officer)

The responsibilities of this post include: -

- Ensuring compliance by the Director for Corporate Services with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Director for Corporate Services when advice is sought.

5.4.9 Internal Audit

The responsibilities of Internal Audit include: -

- Reviewing compliance with approved policy and procedures.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

5.5 ABSENCE COVER ARRANGEMENTS

The normal office arrangements are that on any working day, at least one member of the Team is available to be consulted on any aspect of treasury management, and at least one member of the Treasury Management team is available to carry out any required dealing transactions.

The minimum amount of office cover required for adequate Treasury Management controls to be maintained is one member of the treasury management team. However if any Chaps payments are required this will need the availability of an authorised officer.

There are currently:

5 members of staff that can undertake dealing

9 members of staff that can authorise Chaps payments on Financial Director

1 of each of these would be required for the full process to be undertaken.

In the absence of the Senior Accountant (Corporate Accountancy – Technical) the Group Accountant (Corporate Accountancy – Technical) will undertake all loan transactions in excess of overnight loans.

Subject to the approval of the Treasury Management Board and/or the Director for Corporate Services or The Assistant Director of Finance, Efficiencies, Technology & Assets and Efficiencies an Accountant (Corporate Accountancy – Technical) can undertake deposit transactions up to 1 year.

In the event of the unforeseen absence of the person responsible for dealing, or the Management Team members, the Council's treasury management advisor may be contacted, and advice sought.

5.6 DEALING LIMITS

The following posts are authorised to deal:-

Senior Accountant (Corporate Accountancy – Technical)

No dealing limits for loans up to 1 year.

Deposits up to 1 month with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 1 year subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance. Investment up to 10 years in accordance with approved annual investment strategy subject to the approval of the Director of Corporate Services.

Accountant (Corporate Accountancy – Technical)

Overnight/Call Account deposits with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 1 year subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance.

Loans overnight only (includes weekend) with maximum value of £15m.

Cover

For cover in the absences of the Senior Accountant (Corporate Accountancy – Technical) the Group Accountant (Corporate Accountancy – Technical) will have the same dealing limits.

5.7 LIST OF APPROVED BROKERS

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

5.8 POLICY ON BROKERS' SERVICES

It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between the brokers in order to avoid relying on the services of any one broker. The service provided by Broker's is reviewed on an on-going basis in line with Best Value.

5.9 POLICY ON TAPING OF CONVERSATIONS

It is not Council Policy to tape broker conversations

5.10 DIRECT DEALING PRACTICES

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present all deposits are direct and most loans are arranged through brokers. The following transactions are undertaken directly with Bank and Building Societies on the Council's approved lending list.

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.
- Fixed term deposits.

Prior to undertaking direct dealing the Council will ensure that each counterparty has been provided with the Council's Standard Settlement Instructions.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All dealing transactions are made via CHAPS transfer by the Financial Director system, which is connected, online to the local authority's bankers' network. The payment is entered onto this system and afterwards approved by an authorised signatory. The electronic transfer should be sent by 3.30 p.m. on the same day. Where the system breaks down, a letter signed by a bank signatory setting out each transaction would be faxed to the local authority's bankers where preliminary instructions would have been given by telephone.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker and type of deal. Additional requirements are:

Investments:

- confirmation from the broker
- confirmation from the counterparty
- Chaps payment transmission document

Loans:

- confirmation from the broker
- confirmation from PWLB/market counterparty
- Chaps payments transmission document for repayment of loan

5.12.1 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.

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

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle:

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

As a minimum, the Council/Cabinet/Audit Committee 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 Cabinet will receive regular monitoring reports on treasury management activities and risks.

The Audit committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

6.1 FREQUENCY OF EXECUTIVE REPORTING REQUIREMENTS

The Director for Corporate Services will annually submit budgets and will report on budget variations as appropriate.

The Director for Corporate Services will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Audit Committee/Cabinet and Full Council before the start of the year.

The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.

A Mid-Year Treasury Report will be prepared by the Director for Corporate Services which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Audit Committee and Full Council during the year. All of the above reports will also be submitted to Audit Committee who will be responsible for the scrutiny of treasury management policies and practices.

6.2 CONTENT OF REPORTING

6.2.1 PRUDENTIAL INDICATORS

6.2.1.1 The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:

- Financing costs as a proportion of net revenue stream (estimate; actual)
- Capital expenditure (estimate; actual)
- Incremental impact of capital financing decisions (estimate)
- Capital Financing Requirement (estimates; actual)
- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt
- Upper limits on fixed and variable rate interest exposures
- Upper and lower limits to maturity structure of fixed rate borrowing
- Upper limit to total of principal sums invested longer than 364 days.

6.2.1.2 The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.

6.2.2 TREASURY MANAGEMENT STRATEGY STATEMENT INCLUDING ANNUAL INVESTMENT STRATEGY

6.2.2.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Audit Committee for scrutiny and Cabinet/Full Council for approval before the commencement of each financial year.

6.2.2.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.2.3 The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:

- Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing ~~three~~ years
- Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
- the extent to which surplus funds are earmarked for short term requirements
- the investment strategy for the forthcoming year

- the minimum to be held in short term/specified investment during the coming year
- the interest rate outlook against which the treasury activities are likely to be undertaken.

6.2.2.4 Investment Strategy

Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out

- the objectives, policies and strategy for managing its investments;
- the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
- the limits for the use of Non-Specified Investments.

The AIS will be integrated into the Treasury Strategy Statement.

6.2.2.5 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 POLICY ON INTEREST RATE EXPOSURE

6.3.1 The Council approves before the beginning of each financial year a number of treasury limits which are set through prudential indicators.

6.3.2 The Director for Corporate Services 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 Director for Corporate Services shall submit the changes for approval to the full Council. The latest limits are as set out in the treasury management strategy.

6.4 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

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

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- transactions executed and their revenue (current) effects;
- report on risk implications of decisions taken and transactions executed;
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- monitoring of compliance with powers delegated to officers;
- degree of compliance with the original strategy and explanation of deviations;
- explanation of future impact of decisions taken on the organisation;

- measurements of performance;
- report on compliance with CIPFA Code recommendations and Prudential Indicators.

6.5 MID YEAR REPORT ON TREASURY MANAGEMENT ACTIVITY

6.5.1 The Director for Corporate Services will produce a mid-year report for the Audit committee/Council on the borrowing and investment activities of the treasury management function for the first six months of the year. The main contents of the report will comprise:

- Economic background.
- Economic forecast (including interest rate forecast).
- Treasury Management Strategy Statement update.
- Performance versus benchmarks.
- Borrowing information including premature repayment and new loans.
- Information on investments, including current lending list.
- Government framework and scrutiny arrangements.

6.6 CONTENT AND FREQUENCY OF MANAGEMENT INFORMATION REPORTS

6.6.1 Treasury Management Board

Monitoring information will be prepared monthly for the Treasury Management board. This will include:

- Total debt including average rate and maturity profile
- Total investments including average rate and maturity profile
- Transactions in the period since the last meeting
- Cash flow forecast update
- Counterparty lending against limits
- Monitoring position – latest forecast against budget
- Comparison of actual balances against prudential limits or other treasury management limits

6.7 PERIODIC MONITORING COMMITTEE REPORTS

6.7.1 The Cabinet will receive and consider a periodical review of treasury management activities during the financial year including details of any debt rescheduling undertaken.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle:

The Director for Corporate Services will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques**. The form which the Council's budget will take is set out in the schedule below.

The Director for Corporate Services will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

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

Schedule:-

7.1 STATUTORY/REGULATORY REQUIREMENTS

7.1.1 Balanced Budget Requirement:

7.1.1.1 The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:

- (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and
- (b) revenue costs which flow from capital financing decisions.

S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.

7.1.1.2 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 TM Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 ACCOUNTING PRACTICES AND STANDARDS

7.2.1 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

7.2.2 Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3 FINANCIAL STATEMENTS

The Financial Statements comprise:

- An explanatory foreword
- Accounting policies, changes in accounting estimates and errors
- Presentation of financial statements
- Movement in reserves statement
- Comprehensive income and expenditure statement
- Balance sheet
- Cash flow statement
- Housing revenue account
- Collection Fund (England)
- Statement of Responsibilities
- The Accounting Statements
- Additional Financial Statements (Housing Revenue Account, Collection Fund)
- Notes to the financial statements
- Statements reporting reviews of internal controls or internal financial controls
- Events after the reporting period
- Related party disclosures

7.4 SAMPLE BUDGETS/ACCOUNTS/PRUDENTIAL INDICATORS

7.4.1 The Director for Corporate Services will prepare a three year medium term financial plan with Prudential Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the

function, together with associated income. The Director for Corporate Services will exercise effective controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4.2 The current form of the Council's accounts is available within the Finance department.

7.5 TREASURY MANAGEMENT RELATED INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

7.5.1 The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.

7.5.1.1 Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

- Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
- Prudential Indicators.
- Treasury Management Strategy including Annual Investment Strategy.

7.5.1.2 External borrowing:

- New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
- Loan maturities.
- Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
- Analysis of loans outstanding at year end including maturity analysis.
- Analysis of borrowing between long- and short-term
- Debt management and financing costs
- Calculation of (i) interest paid (ii) accrued interest
- MRP calculation and analysis of movement in the CFR.
- Bank overdraft position.
- Brokerage/commissions/transaction related costs.

7.5.1.3 Investments:

- Investment transactions during the year including any transaction-related costs
- cash and bank balances at year end
- Short-term investments at year end

- Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
- calculation of (i) interest received (ii) accrued interest
- actual interest received
- External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
- Basis of valuation of investments
- Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
- Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.

7.5.1.4 Cash Flow

- Reconciliation of the movement in cash to the movement in net debt
- Cash inflows and outflows (in respect of long-term financing)
- Cash inflows and outflows (in respect of purchase/sale of long-term investments)
- Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

7.5.1.5 Other

- Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes
- Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.
- External advisors'/consultants' charges

7.6 INTERNAL AUDIT

7.6.1 Internal Audit generally conducts an annual review of the treasury management function and probity testing. The Internal Auditors will be given access to treasury management information/documentation as required by them.

7.7 COSTS FOR TREASURY MANAGEMENT

The budget for treasury management forms part of the capital financing budget. This budget forms part of the Council's annual budget setting strategy.

TMP 8 CASH AND CASH FLOW MANAGEMENT

Principle:

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director for Corporate Services 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 Director for Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with **TMPI [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:-

8.1 CASH FLOW FORECASTING

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. The cash flow forecast for the year is updated on a daily basis with actual figures from the Council's bank transactions available from Financial Director. The cash flow forecast is a key document used for calculating any borrowing needed to cover short-term cash flow requirements or the availability of cash for any short-term or longer-term investments.

The detailed annual cash flow model includes the following:

Revenue activities:

Inflows:

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

Outflows:

- Salaries and payments on behalf of employees
- Operating cash payments
- Housing Benefit paid
- Precepts paid

- NNDR payments to national pool
- Payments to the capital receipts pool

Capital activities including financing

Inflows:

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

Outflows:

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

Financing, Servicing of Finance>Returns on Investments

Inflows:

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

Outflows:

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

8.2 BANK STATEMENTS PROCEDURES

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to transaction records from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Bank Reconciliation Team.

8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:

- Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice.
- All other creditors to be paid within 30 days of receipt of invoice.

8.4 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

The information on levels of debtors and creditors are monitored. Debtors payment information is recorded from the daily bank transactions and creditors payments passed to the treasury team following each pay run to assist in updating the cash flow forecast.

8.5 PROCEDURES FOR BANKING OF FUNDS

Instructions for banking of receipts are set out in the Financial Regulations.

All money received by an officer on behalf of the Council will without unreasonable delay be either passed to Transaction Centre staff to deposit or banked directly, under arrangements put in place by the Strategic Manager (Transaction Centre), into the Council's bank accounts. Cash & cheques received by Transaction Centre staff are banked weekly due to the reduction in the value of receipts and the cost of transporting the deposits. These bankings are then included in the figures available on Financial Director used to calculate the Council's available funds/funding requirement requirements and to update the Cash flow forecast for the year.

8.6 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

All prepayments must be authorised by the approved signatory in the respective department.

TMP 9 MONEY LAUNDERING

9.1 Background:

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

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

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

9.1.2 Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

9.1.3 In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

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

9.2 Principle :

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

Schedule:-

9.3 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not accept loans from individuals.

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

When repaying loans, the procedures in 9.4 will be followed to check the bank details of the recipient.

9.4 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. This will be authorised deposit takers under the Financial Services and Markets Act 2000: (The FSA register can be accessed through their website on www.fsa.gov.uk).

Where counterparty is contracted via a broker, the broker confirms bank details. Where Plymouth City Council has previously used the counterparty, details are checked against those currently held. Any changes are confirmed by the broker and by the counterpart on headed paper. When a broker introduces a new counterparty, Standard Settlement Instructions on headed paper are requested. Confirmation of bank details on headed paper is required before any principal or interest payments are made.

All transactions are carried out by CHAPS for making deposits or repaying loans.

9.5 PROCEEDS OF CRIME ACT 2002 (POCA)

Please find below an explanation of the current responsibilities of local authorities: -

The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.

The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number

of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer to whom suspicions must be reported and who is responsible for deciding whether to pass the report to the NCIS.

Their contact address is as follows:

NCIS
PO BOX 8000
LONDON SE11 5EN
www.ncis.co.uk

The Council has appointed the Head of Finance to be the responsible officer to who any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

The treasury management team is conversant with the requirements of the Proceeds of Crime Act 2002. The Council will only lend money to or invest with those counterparties who are authorised under the Financial Services and Markets Act 2000 and each organisation will be asked to formally provide adequate settlement instructions.

TMP 10 TRAINING AND QUALIFICATIONS

Principle:

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

The Director for Corporate Services 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 below.

Schedule:-

10.1 QUALIFICATIONS/EXPERIENCE OF TREASURY MANAGEMENT STAFF

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The courses/events the Council would expect its treasury management personnel to consider are:

- Appropriate qualifications in Treasury Management. This was previously a Certificate in International Treasury Management – Public Finance which has been obtained by the Senior Accountant on the Treasury Management team. This qualification is no longer available and CIPFA are working on a new qualification for treasury managers.
- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, and Financial Management run by CIPFA and IPF.
- Any courses/seminars run by Treasury Management Consultants.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function.

10.2 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

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

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.3 RECORDS OF TRAINING

Records of training received by treasury management staff and those charged with governance are maintained on the appropriate personnel file or as part of councilor/committee records.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**Principle:**

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

Schedule:-**11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS AND REGULATORY STATUS****11.1.1 Banking services**

Name of supplier of the service: Co-operative Bank PLC.

The branch address is:

160 Armada Way, Plymouth PL1 1LF

Tel No. 01752 661482

Commencement Date 1st April 2008

Expiry Date 31st March 2012

The contract ran for 4 years from the 1st April 2008. The contract allowed for the possibility of two additional annual extensions to be agreed by both parties before October 2011 and 2012 respectively. The first extension has been agreed and runs until 31st March 2013.

Other Banks used for access deposit account facilities:

Name of Bank	Account Type	Address
Bank of Scotland PLC	Call and 7 Day Notice	3 rd Floor Citymark 150 Fountainbridge

		Edinburgh EH3 9PE
Santander UK Plc	Call	Abbey National House 301 St Vincent Street Glasgow G2 5NT
Clydesdale Bank	Call and 15 Day Notice	Plymouth Financial Solutions Centre Ground Floor Envoy House 61 Longbridge Road Plymouth PL6 8LU
Royal Bank of Scotland	Call and 30 Day Notice	RBS Corporate Banking 2 nd Floor Vantage Point Woodwater Park Pynes Hill Exeter EX2 5FD
Barclays	Call	PO Box 330 3 Bedford Street Exeter BX3 2BB

11.1.2 Money-broking services

The council will use money brokers for temporary borrowing and investments up to 1 year and long term borrowing. Brokers currently used are:

Name of Broker	Address	Tel. no.
Martin Brokers (UK) PLC	Cannon Bridge House, 25 Dowgate Hill, London EC4R 2BB	0207 4699580
Tullet Prebon Europe Ltd	155 Bishopsgate, London EC2M 3TQ	0207 2007042
Sterling International Brokers Ltd	No. 10 Chiswell Street London EC1Y 4UQ	0207 4968955
London Currency Brokers	ICB House, 3 Scrutton Street London EC2A 4HF	0207 7394444
Tradition (UK) Ltd	Beaufort House 15 St Botolph Street London EC3A 7QX	0207 4223566

11.1.3 Consultants'/advisers' services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments.

Treasury Consultancy Services

Name of supplier of service is Arlingclose Ltd.

Their address is:

60 Moorgate

London

EC2R 6EL

Tel: 08448 808200

Contract Expiry Date is 31st December 2012

Cost of service is £22,000 + Vat in 2012.

The Council has the option to extend the contract for a further two one year periods subject to an annual review with cost in 2013 increasing to £23,000 + Vat and in 2014 to £24,000 + Vat.

External Fund Managers

The council does not currently hold funds with an external fund manager.

11.1.4 Regulatory Status of Services Provided

All financial services providers are regulated by the Financial Services authority (FSA)

TMP 12 CORPORATE GOVERNANCE

Principle:

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

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2011). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Director for Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

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

The following documents are available for public inspection:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement (Including Prudential Indicators and investment Strategy)
- Annual Treasury Report
- Annual Statement of Accounts
- Annual budget
- 5 year Capital Plan
- Minutes of the Council/Cabinet/committee meetings

Financial information is additionally available on the Council's website www.plymouth.gov.uk

12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS

Members and senior officers are consulted via reports to the Audit Committee, Cabinet and Full Council.