

CABINET

4 February 2009

PRINCIPAL SCRUTINY COMMITTEE

9 February 2009

TREASURY MANAGEMENT STRATEGY 2009-10

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1599 - Treasury Management ,13 February 2008

CAB1712 - Treasury Management Stewardship Report,17 September 2008

CAB1754 - Revised Investment Strategy 2008/09, 18 November 2008

EXECUTIVE SUMMARY:

This report outlines the Council's prudential indicators for 2009/10 – 2011/12 and sets out the expected treasury operations for this period. It fulfils four key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The Treasury Strategy, in accordance with the CIPFA Code of Practice on Treasury Management;
- The Investment Strategy (in accordance with the DCLG investment guidance).
- The Minimum Revenue Provision Statement in accordance with DCLG Statutory Guidance.

RECOMMENDATIONS to Cabinet and Council :

1. That the Treasury Management Strategy 2009/10 as set out in this report be approved, including:
 - the adoption of the Prudential Indicators and Limits for 2009/10 to 2011/12 (as detailed in the report);
 - the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP;
 - the Investment Strategy 2009/10 contained in the Treasury Management Strategy, and the detailed criteria included in Appendix A.
2. That Members note:
 - that the Strategy be kept under regular review to take account of any changes in the current global economic situation; and
 - the updated Treasury Management Practices as set out in Appendix B.

Recommendations to Principal Scrutiny Committee:

3. That Principal Scrutiny Committee considers any recommendations it wishes to make to the Council for its consideration of the Treasury Management Strategy 2009/10.

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TREASURY MANAGEMENT STRATEGY 2009-10

REPORT OF HEAD OF FINANCE

1. Introduction

1.1 The regulatory framework for capital finance and investment in local government is covered by a system based largely on self regulation. This system requires local authorities to make sure their capital spending plans are affordable, prudent and sustainable.

1.2 Key aspects of the system are the *Code of Practice for Treasury Management in the Public Services* and the *Prudential Code for Capital Finance in Local Government*, both developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the *Guidance on Local Government Investments* drawn up by the Department for Communities and Local Government (CLG) and the Minimum Revenue Provision from statutory guidance issued by CLG on 28 February 2008.

1.3 The City Council complies with these codes and the investment guidance.

2. Prudential Code

2.1 Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code has been developed as a professional code of practice to support local authorities in taking their decisions. Local Authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

2.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

3. Prudential Indicators

3.1 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and factors that must be taken into account. These indicators are designed to support and record local decision making in a manner that is publicly accountable.

3.2 The Prudential Code includes the following as required indicators for capital and control of borrowing:

- Capital Expenditure
- Capital Financing Requirement (CFR)
- A Minimum Revenue Provision (MRP) Statement
- Limits to Borrowing Activity

Capital Expenditure

3.2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if these resources are insufficient any residual expenditure will form a borrowing need.

3.2.2 ***The Council is asked to approve the summary capital expenditure projections below.*** This forms the first prudential indicator:

	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
Capital Expenditure				
Non-HRA	7.4	9.6	4.8	3.4
HRA	4.2	4.6	4.6	4.6
Financed by:				
Non - HRA				
Government grants	0.7	0.4	0.4	0.4
External contributions	0.9	0.7	0.7	0.3
Earmarked reserves	0.9	0.5	0.4	0.0
Major Investment reserve	0.0	2.5	0.0	0.0
Capital receipts	4.9	5.5	3.3	2.7
HRA				
Major repairs allowance	3.3	3.4	3.4	3.4
Capital Receipts	0.9	1.2	1.2	1.2
Net financing need for the year	0.0	0.0	0.0	0.0

The Council's Borrowing Need (the Capital Financing Requirement) and Minimum Revenue Provision Policy

3.2.3 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been funded from either revenue or capital resources. It is essentially a measure of Council's underlying

borrowing need. Any capital expenditure above which has not immediately been funded will increase the CFR.

3.2.4 The Council is asked to approve the CFR projections below:

	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
Capital Financing Requirement				
CFR – Non Housing	10.1	10.1	10.1	10.1
CFR - Housing	-10.1	-10.1	-10.1	-10.1
Total CFR	0.0	0.0	0.0	0.0
Movement in CFR	0.0	0.0	0.0	0.0

Movement in CFR represented by				
Net financing need for the year (above)	0	0	0	0
MRP/VRP and other financing movements	0	0	0	0
Movement in CFR	0	0	0	0

3.2.5 If the Council had negative figure for CFR – Non Housing it would be required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP) and it is also allowed to undertake additional voluntary payments (VRP).

3.2.6 Although MRP forecast is at zero because CFR – Non Housing remains a positive figure Department of Communities & Local Government have issued regulations which require Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing regulations, so long as there is a prudent provision.

3.2.7 The Council is recommended to approve the following MRP Statement.

For all unsupported borrowing the MRP policy will be (either/and):

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)
- **Depreciation method** – MRP will follow standard depreciation accounting procedures.

The Use of the Council's Resources and the Investment Position

3.2.8 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (e.g. asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
General Fund balance	2	2	2	2
HRA balances	1	1	1	1
Capital receipts	4	0	2	0
Earmarked reserves	6	3	3	3
Other Balances.	4	3	2	2
Total Core Funds	17	9	10	8
Working Capital*	4	4	4	4
Expected Investments	21	13	14	12

* Working capital balances shown are estimated year end; these may be higher mid year. They also include reserves such as the Major Investment Reserve which is used for both revenue and capital purposes.

Limits to Borrowing Activity

3.2.9 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2009/10 and the following two financial years.

£m	2008/09 Revised	2009/10 Estimated	2010/11 Estimated	2011/12 Estimated
Gross Borrowing	0	0	0	0
Investments	21	13	14	12
Net Borrowing	-21	-13	-14	-12
CFR	0	0	0	0

3.2.10 The Head of Finance reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2.11 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The Authorised Limit for External Debt – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council.
- The Operational Boundary for External Debt – This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

3.2.12 **The Council is asked to approve the following Authorised Limit and Operational Boundary:**

Authorised limit	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
Borrowing	7	7	7	7
Other long term liabilities	0	0	0	0
Total	7	7	7	7

Operational Boundary	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
Borrowing	2	2	2	2
Other long term liabilities				
Total	2	2	2	2

3.2.13 Although the Council has no long-term borrowing requirement, a limit of £7million is proposed, to allow for unforeseen circumstances, with an operational boundary set at £2 million to allow for temporary cashflow needs, pending receipt of other funds.

3.3 Affordability Prudential Indicators

3.3.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. The Council is asked to approve the following indicators:

3.3.2 Actual and Estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The non-HRA (General Fund) is zero because it has no borrowing, whereas the HRA has a positive capital financing requirement. The net position is zero as the council remains debt free. The reduction in the HRA % is due to the large reduction in interest rates during the latter part of 2008-09 which a forecast to go even lower before recovering in 2010/11 & 2011/12.

Affordability Indicator	2008/09 Revised %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
Non-HRA	0.0	0.0	0.0	0.0
HRA	2.5	0.7	1.0	1.3
Net position	0.0	0.0	0.0	0.0

3.3.3 Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs associated with *new schemes* introduced to the three year capital investment programme recommended in this

budget report compared to the Council's existing approved commitments and current plans.

- 3.3.4 Incremental impact of capital investment decisions on the Band D Council Tax, reflecting changes to the capital programme since last year's Treasury Management Policy approved by Council. This is effectively the cumulative effect of interest lost on investments

	Proposed Budget 2009/10 £.p	Forward Projection 2010/11 £.p	Forward Projection 2011/12 £.p
Council Tax - Band D	0.50	-0.18	0.00

- 3.3.5 Estimates of the incremental impact of capital investment decisions on Housing Rent levels – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

- 3.3.6 Incremental impact of capital investment decisions Housing Rent levels:

	Proposed Budget 2009/10 £.p	Forward Projection 2010/11 £.p	Forward Projection 2011/12 £.p
Weekly Housing Rent levels	0.00	0.00	0.00

There is no incremental cost to the HRA as capital expenditure is financed out of the major repairs allowance and capital receipts.

4. Treasury Management Strategy 2009/10 – 2011/12

- 4.1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators above consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.

- 4.2. This strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;

- Specific limits on treasury activities;
- Any local Treasury issues.

5. Debt and Investment Projections 2009/10 – 2011/12

5.1. The Council is debt free and has no need to borrow to finance the proposed capital programme. The budget report considered elsewhere on this agenda (CAB1786) identifies that it will be necessary to consider borrowing later in the Strategy period for schemes not yet included in the Capital Programme. However, there may be a need to borrow in the short-term to cover temporary cashflow fluctuations. As at 31 December 2008 short-term investments totalled £32 million and there was £1 million invested in the Local Authorities Mutual Investment Trust (LAMIT) currently valued at £1.3million.

5.2. The projections are:

	2008/09 Revised £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
External Debt				
Debt at 1 April	0	0	0	0
Expected change in debt	0	0	0	0
Debt at 31 March	0	0	0	0
Operational Boundary	2	2	2	2
Investments				
Total Investments at 31 March	21	13	14	12
Investment change	-6	-8	+1	-2

5.3. Expected Movement in Interest Rates

Annual Average %	Bank Rate	Money Rates		PWL B Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	1.0	1.6	1.8	2.4	3.9	3.8
2010/11	1.7	2.1	2.8	3.2	4.1	4.0
2011/12	2.4	2.8	3.6	4.0	4.3	4.1

* Borrowing Rates

5.4. The related impact of the above movements and the more restrictive treasury management policy adopted by CAB 1754 on the revenue budget are:

	2008/09 Revised £million	2009/10 Estimated £million	2010/11 Estimated £million	2011/12 Estimated £million
Revenue Budgets				
Interest on Borrowing	0.0	0.0	0.0	0.0
Related HRA Charge	-0.1	-0.3	0.0	0.0
Net General Fund Borrowing Cost	0.0	0.0	0.0	0.0
Investment income	-0.4	1.3	0.0	0.0

-negative = increased income or reduced expenditure

6. Borrowing Strategy 2009/10 – 2011/12

6.1. Since it is not currently envisaged that there will be a capital financing requirement it is unlikely, based on the current budget projections, that any medium or long term borrowing will be necessary, although temporary borrowing may occur occasionally, on a short term basis for cash flow reasons. All borrowing during 2009/10 will be temporary (ie for less than 365 days).

6.2. Should there be any significant changes to this requirement during the year, for example as a consequence of further growth in the capital programme requiring borrowing, funding options will be presented for separate consideration and approval.

7. Investment Counterparty and Liquidity Framework

7.1. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is a key consideration.

7.2. The Treasury management Strategy will seek to ensure :

- The effective management and control of risks associated with treasury activities;
- Prudent investment with regard to security and liquidity; and
- Optimum returns within these constraints.

7.3. In response to the exceptional circumstances in 2008 the Council implemented a revised Investment Strategy (detailed in CAB1754). As there has not been a significant change to circumstances since that report was presented it is proposed to continue with the current Investment Strategy with only minor changes reflecting operational experience in the months since the policy was set.

7.4. This means that for 2009/10 the lending criteria will continue as a select list of names for short term fixed deposits. This includes:

- Investments in existence at 14 November 2008 until maturity date;
- Investments with the UK Government;
- Investments with UK nationalised institutions;
- Investments with Irish government-guaranteed organisations *if* AAA sovereign rated; and
- Investments with UK organisations highlighted in the original UK authority financial “rescue” plan.

7.5. The detailed criteria are set out in Appendix A, with 2 Changes proposed:

- Lloyds/ HBoS be now treated as one institution for the purposes of maximum levels of investment; and
- that the maximum deposit term for tier 4, be extended from 1 month to 3 months.

8. Investment Strategy 2009/10 – 2011/12

8.1. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 1.50% Bank Rate reducing in quarters 1 - 3 2009-10 before starting to recover in quarter 4. The Council’s investment decisions are based on comparisons between the rises priced into market rates against the Council’s and advisers own forecasts.

8.2. There is a clear difficulty arising from the current banking crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

9. Treasury Management Prudential Indicators and Limits on Activity

9.1. ***There are four further treasury prudential indicators the Council is asked to approve :***

	2009/10	2010/11	2011/12
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates	£7million	£7million	£7million
Maturity Structure of fixed interest rate borrowing 2009/10			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
Maximum principal sums borrowed			
Authorised limit	£7m	£7m	£7m
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£7m	£7m	£7m

10. Treasury Management Practices

10.1. The Council has adopted suitable treasury management practices setting out the manner in which it seeks to achieve the treasury management policies and objectives, and prescribing how it manages and controls those activities. These have been reviewed and updated and are appended at Appendix B for members to note.

11. Performance Indicators

11.1. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the Bank Base Rate (previously the 7 day LIBID rate).
- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

Performance against these indicators will be reported in the Treasury Annual Report for 2009/10.

12. Other Considerations:

12.1. Local Authorities' Mutual Investment Trust (LAMIT)

12.1.1. The Council currently holds 422,654 property fund units in the Local Authorities' Mutual Investment Trust (LAMIT), which were purchased in 1989/90 at a cost price of £1million. The value of the LAMIT is subject to market fluctuations. Performance over the past 5 years has been as follows:

Valuation date	Value*	Gain / (Loss) on investment (unrealised)
31 st March 2004	£1,043,000	43,000
31 st March 2005	£1,193,000	193,000
31 st March 2006	£1,136,000	136,000
31 st March 2007	£1,527,000	527,000
31 st March 2008	£1,335,000	335,000

**Source: Statement of Accounts*

12.1.2. The latest quoted bid price (November 2008) is £1.19 million.

Any decision as to whether to dispose or not should have due regard to any anticipated change in the capital value, future cash needs and anticipated dividends compared with yields from replacement investments.

- 12.1.3. The current yield of 5.8% is dependant on property rents which may fall as the recession bites; however, this is not likely to be matched in the short term in the interest rates obtainable on investments.

12.2. Investment in Heritable Bank Ltd (in Administration)

- 12.2.1. On 16 September 2008 the Council invested £1m in Heritable Bank plc, for a period of 6 months at a rate of 6%. Heritable is a Scottish registered company and a 100% subsidiary of (Old) Landsbanki.

- 12.2.2. Following the deterioration of the interbank lending markets, on 7 October 2008 the Iceland Government passed an Act that enabled the Icelandic Financial Services Authority to dismiss the board of Old Landsbanki and replace it with a Resolution Committee. On the same day the UK Government made the Heritable Bank Plc Transfer of Certain Rights and Liabilities Order 2008, which resulted in the transfer of Heritable's retail deposits to ING Direct NV. As a consequence, Heritable entered into administration, and Ernst & Young LLP were appointed as administrators. Local Authorities' deposits with Heritable were not transferred to ING Direct NV under the terms of the Order and they became creditors in the administration of Heritable's estate.

- 12.2.3. The first meeting of creditors, on 9 December 2008, agreed the administrator's proposals for the conduct of the administration and elected 2 Local Authority representatives to the statutory creditors' committee (Haringey & Kent). The committee's role is to act as representative advisers to the administrators in the recovery process and to determine the administrators' fees.

- 12.2.4. The Administrators, Ernst and Young, are pursuing a managed run off of business, which was unanimously supported by the creditor committee at it's first meeting in December 2008. An update on progress is awaited.

- 12.2.5. There is a potential claim against a guarantee of Heritable deposits by its parent Landsbanki. The LGA have employed solicitors who have written to the Landsbanki Resolution Committee informing them of local authority deposits in Heritable and putting them on notice of a claim. We have been advised by the LGA that there is therefore no need for individual authorities to take any further action in relation to this, at this point in time.

- 12.2.6. The LGA have also reported that legal advice in respect of the question raised by some local authorities on potential legal challenges against third party advisers in relation to investments in Icelandic banks, is that such actions are unlikely to be successful.

13. CORPORATE STRATEGY (RELEVANCE TO):

- 13.1. Treasury Management supports the Sustainable Community Strategy and the Corporate Business Plan by demonstrating high standards in managing the taxpayers' money.

14. RESOURCE IMPLICATIONS:

- 14.1. Interest rate changes continue to have a significant effect on the annual budget, generating high levels of investment income. A significant proportion of the Council's spending has historically been financed from investment income. However, the drastic reductions to the base rate in 2008/09 have impacted significantly on the interest income forecasts, which are estimated at £0.5m in the 2009/10 budget. The forward projections assume that the current rates will fall in the 2009 calendar year and begin to recover early in 2010, in accordance with the latest information from the Council's investment advisors. A change in interest rates of 0.25% would alter investment income by circa £80,000 in 2009/10.

15. BACKGROUND DOCUMENTS

- 15.1. Operational and financial records held in the Finance Division
- 15.2. Department of Communities & Local Government regulations on MRP Statement

<http://www.local.communities.gov.uk/finance/capital/statguidmrp.pdf>

16. APPENDICES:

- Appendix A Approved List of Financial Institutions and Investment Criteria effective from 1st April 2009
- Appendix B Treasury Management Practices (Revised with effect from February 2009)
- Appendix C Ratings Definitions

Approved List of Financial Institutions and Investment Criteria

Classification	Description	Institution	Requirements	Maximum total investment
Tier 0	Existing Investments	See CAB1754 Appendix B	until maturity date	
Tier 1	Investments with UK government	DMADF	6 months (max)	No limit
		Local Authorities	1 year	£5m total £1m per authority
		UK Govt backed AAA Money Market Funds		£3m total £1m per fund
Tier 2	Investments with UK nationalised institutions	Currently only Northern Rock- but Bradford & Bingley may be added by the Head of Finance when the full terms of its guarantee are revealed.	Govt guarantee (currently time limited to 3 months)	£3m
Tier 3	Investments with other AAA sovereign rated government-guaranteed organisations.	Irish: Allied Irish Banks Anglo Irish Banking Corporation Bank of Ireland Irish Permanent EBS Building Society Irish Nationwide Building Society	AAA Stable from all 3 rating agencies – maximum 3 months	£5m – overall country limit £1m per Institution
Tier 4	Investments with UK organisations highlighted in the original UK authority financial “rescue” plan.	Abbey National Barclays HBOS HSBC Lloyds /HBOS Nationwide Building Society Standard Chartered	F1+ / P-1 / A-1+ (highest short term rating from all 3 agencies) Maximum 1 month Maximum 3 months	£1m per institution and for National Westminster only - exceptionally up to £3m daily with approval by Head of Finance
		Royal Bank of Scotland - National Westminster current account		

Treasury Management Practices (TMP's)

The City Council has adopted suitable treasury management practices setting out the manner in which it seeks to achieve the treasury management policies and objectives, and prescribing how it manages and controls those activities.

Treasury Management Practices are included in the Treasury Management Manual and cover:

TMP1	Risk Management
TMP2	Best value and performance management
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Staff training and qualification
TMP11	Use of external service providers
TMP12	Corporate governance

TMP1 – RISK MANAGEMENT

Winchester City Council believes that the effective identification, monitoring and control of risk is a common and overriding aim of its treasury management practices. The following sections of this TMP identify type of risk and set out the ways in which the Council will monitor and control those risks.

1. Liquidity Risk

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 service objectives will be thereby compromised.

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

The Council will maintain an effective cash and cashflow forecasting and monitoring system that will identify the extent to which the Council is exposed to the effects of potential cashflow variations and shortfalls. The principles of this system are set out in *TMP8 – Cash and Cashflow Management*.

2. Interest Rate Risk

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

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

The Council will have regard to professional advice on the likely future course of interest rates to enable it to assess the extent to which movements in these may impact on the Council. Appropriate procedures are built into the Council's budget processes to enable this to happen and commentary will be included in the annual treasury management strategy.

3. Exchange Rate Risk

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.

Council policy is to conduct its affairs in sterling, thereby avoiding any exposure to exchange rate fluctuations.

4. Inflation Risk

The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council will have regard to professional sources and advice on the likely future course of inflation to enable it to assess the extent to which changes may impact on the Council. Appropriate procedures are built into the Council's budget processes to enable this to happen.

5. Credit and Counterparty Risk

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

The Council regards a prime 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 included in that document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing arrangements.

The Council operates a policy of diversification in the organisations it deals with for borrowing and investment in order to avoid over reliance on a small number of third parties. The standing and status of these third parties is kept under continuous review with professional advisors and subscription services.

6. Refinancing Risk

The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the Council for those re-financings, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council is currently debt free but will ensure that any future borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are

managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council 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.

7. Legal and Regulatory Risk

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

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

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

8. Fraud, Error and Corruption, and Contingency Management

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

The 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.

9. Market Risk

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

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.

Finance will only be raised in accordance with the Local Government and Housing Act 1989 or subsequent authorising legislation.

TMP2 – BEST VALUE AND PERFORMANCE MEASUREMENT

This Council is committed to the pursuit of best value 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 and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

SCHEDULE1 Performance measures and targets

Investments

- Average return on investments to exceed the sterling 7 day LIBID rate

Borrowing

- To remain debt free whilst it is financially advantageous for the Council to be so

2 Benchmarking

The Council will benchmark its costs and performance in carrying out the treasury management function against those of other local authorities. The target is to be the average for costs of service with peer authorities.

TMP3 – DECISION-MAKING AND ANALYSIS

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

SCHEDULE OF RECORDS/PROCESSES & ISSUES RE: TREASURY
MANAGEMENT DECISIONS:

Records

Cashflow Ledger & summary spreadsheet
Investment Register
Investment Pro-forma
Transaction files
Bankline records
Bank statements
Committee reports

Processes

Temporary loans – lending
Temporary loans – repayment
Bankline – balances
Bankline – transfers
Bankline – electronic payments

Issues

Economic and market factors will be evaluated on a regular basis, taking external expert advice as necessary, to ensure that the merits, manner and timing of treasury management activity are appropriate.

Documentation and systems will be reviewed on a regular basis to ensure that they are adequate to meet the treasury management needs of the Council.

TMP4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

SCHEDULE1 Approved Borrowing Instruments

The following list specifies which borrowing instruments can be adopted:-

- Public Works Loan Board
- Market Long-term
- Market Temporary
- Local Temporary
- Overdraft
- Negotiable Bonds
- Stock Issues
- Leasing
- Internal (capital receipts and revenue balances)

All the above forms of funding may be considered, depending on the prevailing economic climate, regulations and local considerations. The Head of Finance shall have delegated powers to take the most appropriate form of borrowing from the approved sources.

Should new instruments become available or should the Council consider using an instrument for the first time, the tests of legality, objectivity, suitability, risks, costs and status of counterparty will be applied before Council approval is sought to their use.

2 Approved Methods and Techniques

The range of approved methods to be used in the process of treasury management shall include trained internal staff resources and advice from authorised consultants, brokers and bankers

Internal staff resources will maintain relevant skills through appropriate training and CPD (Continuing Professional Development) activities.

The use of authorised treasury management consultants, authorised brokers and banking facilities will be subject to periodic market testing (as per TMP1) and competency standards.

No novel techniques will be introduced without full evaluation and an assessment of all consequences for the Council.

3 Approved Organisations for the Investment of Council Funds

The approved organisations for investment are contained in the counterparty list which is maintained, constantly reviewed and updated by our treasury management consultants

The criteria for inclusion on the counterparty list are included in the treasury management strategy report approved by the Council in February with a further constraint that, with the exception of the DMADF, no more than 25% of outstanding investments be placed in any one institution at the time the investment is made.

TMP5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

This 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 Head of Finance 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 Head of Finance 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 present arrangements are detailed in the schedule to this document.

The delegations to the Head of Finance in respect of treasury management are set out in Section 5.7 of the Council's Financial Procedure Rules. The Head of Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs

TMP5– ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES,
AND DEALING ARRANGEMENTS -SCHEDULE OF RESPONSIBILITIES

Head of Finance

Approve changes to Treasury Management Policy Statement for presentation to Cabinet
 Approve annual Treasury Management Strategy for presentation to Cabinet
 Approve annual Stewardship Report for presentation to Cabinet
 Advise Corporate Management Team of treasury management activities in regular reports
 Approve changes to investment counterparty list
 Approve internal scheme of management
 Approve banking contract details
 Ensure treasury management review is in audit plan

Principal Financial Accountant

Review annually and revise as necessary the Treasury Management Policy Statement
 Prepare annual Treasury Management Strategy
 Prepare annual Stewardship Report
 Liaise with TM advisors on strategic issues
 Liaise with bank on contract matters
 Ensure treasury management staff numbers are adequate and staff are properly trained
 Review internal scheme of management annually
 Review banking contract periodically
 Monitor treasury management performance through monthly reports to Head of Finance
 Develop, implement and maintain performance measures

Financial Accountant

Regular liaison with TM advisors
 Develop and maintain cash flow model for forecasting
 Review investment counterparty list with TM advisors and advise HoF/PFA of changes
 Review performance with assistant accountant weekly
 Take daily dealing decisions outside approved cash flow forecast
 Provide absence cover for Assistant Accountant
 Verify Counterparty identity

Assistant Accountant

Prepare weekly cash flow and forecast transactions report
 Prepare daily cash requirement
 Take daily dealing decisions consistent with weekly transaction forecast
 Prepare monthly transactions report for HoF/PFA
 Maintain monthly and annual cashflow spreadsheets for treasury management purposes
 Maintain register of borrowing and investment activity
 Reconcile bank accounts monthly
 Maintain drawings account
 Liaise with bank on day-to-day matters
 Manage and monitor company credit cards

TMP6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This 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 these policies; on the implication 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 will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- an annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

The present arrangements for these reports are detailed in the schedule to this document.

SCHEDULE

- The Treasury Management Strategy Report for the ensuing financial year will be considered by Cabinet and Principal Scrutiny Committee in advance of being presented to Council for approval, prior to the commencement of the new financial year.
- The Treasury Management Stewardship Report will be considered by Cabinet and Principal Scrutiny Committee usually in September each year following the year being reported upon.
- All Treasury Management reports will be considered by Corporate Management Team before going to Cabinet.
- A quarterly report will be produced for the Corporate Management Team and the Finance & Efficiency Portfolio Holder to outline investments made and provide assurance that appropriate procedures have been followed.
- The Finance & Efficiency Portfolio Holder will be notified if the Council's investment practices are to be varied significantly within the parameters set by the Treasury Management Strategy.
- Any ad hoc treasury management reports required under the Code of Practice will be reported to Cabinet at the earliest opportunity.
- The Head of Finance will present reports to an informal group of Cabinet Members being established to review strategic issues regarding Council investments, upon request (expected to be every few months), whilst seeking to ensure the proper separation between Officer and Member roles in making investments.
- A monthly transactions report will be considered by the Head of Finance

TMP7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance 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 *Best value and performance management*, and TMP4 *Approved instruments, methods and techniques*. The form which the Council's budget will take is set out in the Council's annual Budget Book. The Head of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management of information arrangements*.

This 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 Statement of Accounts published each year.

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

TMP8 – CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1[1] *liquidity and risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

SCHEDULE

1. The Council's cash balances are monitored in order to ensure that demand for cash can always be met and that large cash balances are used effectively.
2. A cashflow schedule is kept of expected bank transactions, a separate page relates to each complete month and shows income and expenditure on the Council's Drawings, General and Community Charge bank accounts.
3. Bank balances are extracted from Natwest Bankline on a daily basis. Net surplus balances for investment will be invested with approved organisations and timed to be repaid to coincide with large payments out. The limit on the amount to be invested with any individual borrower will be observed. Similarly, if borrowing is necessary, repayment dates will coincide with expected income flows.
4. After the day's business has been completed if the Drawings account is near to £1m overdrawn, or will be after transactions on the day, a transfer between the accounts will be done using Natwest Bankline.
5. The Assistant Accountant will input the necessary transactions on Natwest Bankline and the entries to the Treasury Management Register spreadsheet (accountancy/accountancy/accounts/Treasury Management/Register/relevant year). The Financial Accountant will monitor the validity of the bank transactions and that the spreadsheet is kept current.

TMP9 – MONEY LAUNDERING

This 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.

Structure of the TMP

Since the topic of money laundering is quite wide and complex this TMP has been structured in the following way:

- Background legislation – This outlines the different statutory requirements applying to local authorities.
- Requirements of the legislation – This introduces the individual elements of the legislation the Council will need to consider.
- Schedules – This provides a procedure note to prompt consideration of each of the areas above.

Background Legislation

There are several Acts of Parliament and the FSA has also made provisions relating to money laundering, with the main legislation being contained in the Criminal Justice Act 1993 (which contains the provisions to implement the EU Money Laundering Directive).

The current regulations are contained in the Money Laundering Regulations 2007 (SI 2007/2157)

http://www.opsi.gov.uk/si/si2007/pdf/uksi_20072157_en.pdf

and this Statutory Instrument, the [Terrorism Act 2000](#) and the [Proceeds of Crime Act 2002](#) cover the main compliance requirements.

The key requirements of this legislation cover an area wider than the fairly narrow treasury management function, including possessing, or in any way dealing with, or concealing, the proceeds of any crime.

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2007 (except through this TMP), the implications of the Terrorism Act 2000 and The Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

Outline of the Requirements of the Regulations and Statutes

- 1) **Customer due diligence** (SI 2007/2157 Money Laundering Regulations part 2)–

Meaning of customer due diligence measures

“Customer due diligence measures” means—

- (a) identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source;
- (b) identifying, where there is a beneficial owner who is not the customer, the beneficial

owner and taking adequate measures, on a risk-sensitive basis, to verify his identity so that the relevant person is satisfied that he knows who the beneficial owner is, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement; and (c) obtaining information on the purpose and intended nature of the business relationship.

2) In these instances there is a requirement to:

- a). Set up and maintain identification procedures to ensure the counterparty produces satisfactory evidence of identity;
- b). Follow the procedures to ensure the counterparty provides satisfactory evidence.

3. These procedures should reflect:

- a). The greater potential for money laundering if the counterparty is not physically present when being identified,
- b). If satisfactory evidence is not obtained the relationship or transaction does not proceed,
- c). If the counterparty acts, or appears to act, for another person, reasonable measures must be taken for the purpose of identifying that person.

4. The primary exception to this requirement is if the counterparty carries on FSA regulated business in the UK (or comparable or by overseas regulatory authority) it is not necessary to obtain evidence. In this case most treasury transactions will be undertaken with or via relevant businesses, although there may be isolated exceptions such as the Post Office.

5. **Record keeping procedures** (Money Laundering part 3) – The Council must maintain procedures covering the retention of records. To ensure compliance, records are required to be kept for 5 years after the end of the transaction or relationship.

6. **Policies & procedures** (Money Laundering part 3 para 20) – The Council must maintain internal reporting procedures which document:

- a). The “nominated officer” who will be the Money Laundering Reporting Officer (MLRO) who will receive nominations under this regulation;
- b). The process by which any other person in the organisation receiving information which may result in them having reasonable grounds for knowing or suspecting money laundering, fraud or use of the proceeds of crime can report this to the MLRO;
- c). The process by which the MLRO on receiving a disclosure considers, in the light of all information, whether it gives rise to such knowledge or suspicion
- d) anyone in the organisation to whom information or other matter comes in the course of the business as a result of which he knows or suspects or has reasonable grounds for knowing or suspecting that a person is engaged in money laundering or terrorist financing is required to comply

with Part 7 of the Proceeds of Crime Act 2002 or, as the case may be, Part 3 of the Terrorism Act 2000; and

- e). where a disclosure is made to the MLRO, he must consider it in the light of any relevant information which is available to the relevant person and determine whether it gives rise to knowledge or suspicion or reasonable grounds for knowledge or suspicion that a person is engaged in money laundering or terrorist financing

7. **Training** (Money Laundering Regulation Part 3 para 21)) – The Council should take appropriate measures to ensure that relevant employees are:

- a). made aware of the law relating to money laundering and terrorist financing; and
- b). regularly given training in how to recognise and deal with transactions and other activities which may be related to money laundering or terrorist financing

Schedules Addressing this Council's Compliance

In order to address these requirements the Council has set up the following procedures:

1. **Training** – Through this document and specific training, staff will be kept aware of developments in money laundering regulations and the appropriate staff are encouraged to keep abreast of money laundering issues through publications and the internet. The MLRO will be required to attend specific professional courses on money laundering developments to ensure local knowledge is kept up to date.
2. **Material and regular deposits or borrowing** - For all investment or borrowing counterparties, the Council will ensure that the counterparty has been suitably identified. This will take the form of:
 - a). **Investment Counterparties** – All investment counterparties which are maintained on the Council's lending list should be a deposit taker authorised by a regulatory body (e.g. the FSA {check via www.fsa.gov.uk/register}). As such the identification procedures usually required above do not apply since the institution carries out relevant business in the UK. Those counterparties not authorised as a deposit taker through the FSA which are institutions, such as the Bank of England or Post Office, are not required to be the subject of stringent identification procedures, but the Council will review these on a case by case basis.
 - b). **Borrowing Counterparties** – All borrowing counterparties are dealt with through either of the following routes:
 - i). **Via Money brokers – In this instance Money Laundering Regulations (13.1.A)** applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK. However even when dealing via a broker it is the council's responsibility to verify the counterparty, not the broker's; or
 - ii). **Direct dealing – In this instance the Council uses** only recognised names, ones with credit ratings and to which the Council has

reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions (such as Bank of England or Post Office), the nature of their business does not require stringent identification procedures, but the council will undertake procedures to “know the counterparty”.

3. **Identification** - if any treasury investment counterparties are not known to the Council the Financial Accountant will ensure identification of the counterparty by checking the credit rating of the organisation via the Council’s treasury advisers. This would normally be undertaken during the compilation of the counterparty list. If the counterparty is neither credit rated, nor known to be carrying on regulated business (e.g. FSA), the Council will not deal with that organisation.
4. **Small or irregular treasury deposits** – If at any time the Council is minded to accept deposits from local institutions or individuals, in these circumstances the Council will require and copy identification of the institution’s contact officer or individual and the Council will take such steps that are reasonable to ensure the activities and operations of the counterparty are appropriate. The identification process and documentation will be held with the information relating to the transaction. In the event that identification is inadequate or not forthcoming the Council will not deal with that institution or individual.
5. **Reporting - Appoint a “nominated officer”**, the MLRO, who is nominated to receive disclosures under this regulation. The MLRO for this council is the Internal Auditor Manager. Any concern of a transaction possibly being linked to either money laundering, the proceeds of crime or is to be used for terrorism must be referred to the Internal Audit Manager for consideration and if the concerns are validated the National Crime Intelligence Service must be notified (Part 7 of the Proceeds of Crime Act 2002) or a constable notified (Part 3 of the Terrorism Act 2000).

TMP10 – STAFF TRAINING AND QUALIFICATIONS

This 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 Head of Finance will implement the necessary arrangements.

TMP11 – USE OF EXTERNAL SERVICE PROVIDERS

This Council 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 the appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. 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 responsible officer and details of current arrangements are set out in the schedule to this document.

<u>SCHEDULE</u>			
<u>Service</u>	<u>Provider</u>	<u>Start Date</u>	<u>Period</u>
Banking Services	National Westminster	April 2007	4 years
TM Advice	Butlers	2007	2 or 3 years
Brokerage Services	Tradition UK Ltd)	
	Sterling Brokers Ltd)	London Money Market brokers
	ICAP)	ongoing and used as required
	Prebon Yamane)	
	NatWest Bank)	
Bank Tender Advice	Focus on Banking	July 2001	N/A

TMP12 – CORPORATE GOVERNANCE

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

This Council has adopted and implemented the key recommendations of the CIPFA Code of Practice. This is considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, as and when necessary, report upon the effectiveness of these arrangements.

Rating Definitions**Fitch – Short Term Ratings****F1**

Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2

A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

Moody's – Short Term Ratings**Prime-1**

Banks rated Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short-term deposit obligations.

Prime-2

Banks rated Prime-2 for deposits offer strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

Standard & Poor's – Short Term Ratings**A-1**

An obligor rated 'A-1' has STRONG capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG.

A-2

An obligor rated 'A-2' has SATISFACTORY capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch – Long Term Ratings**AAA Highest credit quality.**

'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality.

'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality.

'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Note: "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-term rating

Moody's – Long Term Ratings

Aaa

Banks rated Aaa for deposits offer exceptional credit quality and have the smallest degree of risk. While the credit quality of these banks may change, such changes as can be visualized are most unlikely to materially impair the banks' strong positions.

Aa

Banks rated Aa for deposits offer excellent credit quality, but are rated lower than Aaa banks because their susceptibility to long-term risks appear somewhat greater. The margins of protection may not be as great as with Aaa-rated banks, or fluctuations of protective elements may be of greater amplitude.

A

Banks rated A for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

Note: Moody's applies the numerical modifiers 1, 2, and 3 in each generic rating category from Aa to Caa. The modifier 1 indicates that the bank is in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the bank is in the lower end of its letter-rating category.

Standard & Poor's – Long Term Ratings

AAA

An obligor rated 'AAA' has EXTREMELY STRONG capacity to meet its financial commitments. 'AAA' is the highest Issuer Credit Rating assigned by Standard & Poor's.

AA

An obligor rated 'AA' has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.

A

An obligor rated 'A' has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

Note: Plus (+) or minus (-) The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Fitch – Individual Rating

A

A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment, or prospects.

B

A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C

An adequate bank which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

Note: In addition, we use gradations among these five ratings, i.e. A/B, B/C, C/D, and D/E.

Moody's – Financial Strength Rating

A

Banks rated A possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very predictable and stable operating environment.

B

Banks rated B possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

C

Banks rated C possess adequate intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment.

Note: The definitions for Moody's Bank Financial Strength Ratings employ the alphabetic notation A through E as well as the symbols + and - to indicate gradation.

Fitch – Support Rating

1 denotes:

A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term Rating floor of 'A-'.

2 denotes:

A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term Rating floor of 'BBB-'.

3 denotes:

A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term Rating floor of 'BB-'.

-----end