CAB1960
FOR DECISION
WARD(S): GENERAL

CABINET

3 February 2010

PRINCIPAL SCRUTINY COMMITTEE

8 February 2010

TREASURY MANAGEMENT STRATEGY 2010-11

REPORT OF HEAD OF FINANCE

Contact Officer: Alan Goard Tel No: 01962 848117 email: agoard@winchester.gov.uk

RECENT REFERENCES:

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

CAB1785 - Treasury Management Strategy 2009/10, 4 February 2009

CAB1890 - Treasury Management Stewardship 2008/09, 16 September 2009

CAB1931 - Revised Investment Strategy 2009-10, 9 December 2009

EXECUTIVE SUMMARY:

This report outlines the Council's prudential indicators for 2010/11 – 2012/13 and sets out the expected treasury operations for this period. It fulfils four key reports required by the Local Government Act 2003:

1. The reporting of the **prudential indicators** setting out the expected capital activities, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities. The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management code of practice;
2. The **Treasury management statement** strategy, which sets out how the Council's treasury service will support the capital decisions taken above, in accordance with the CIPFA Code of Practice on Treasury Management;
3. The **Investment Strategy**, which sets out the Council's criteria for choosing investment counterparties and limiting exposure to risk (in accordance with the DCLG investment guidance); and
4. The **Minimum Revenue Provision** Statement in accordance with DCLG

Statutory Guidance.

CIPFA guidance (The Prudential Code and Treasury Management Code of Practice) has been revised and has been reflected in this report. DCLG is currently consulting on changes to the investment guidance. If necessary the investment strategy will be revised if any elements of the final DCLG investment guidance have not already been covered.

The main change initiated in the revision is to increase Members' responsibility in this area. It requires greater Member scrutiny of the treasury policies, increased member training and awareness, and greater frequency of information.

The CIPFA Treasury Management Code of Practice lays down clauses to be adopted in the Council's Constitution. The Financial Procedure Rules paras 5.4 to 5.8 will require minor changes as identified in Appendix A.

RECOMMENDATIONS to Cabinet, Principal Scrutiny Committee and Council :

1. That the Treasury Management Strategy 2010/11 as set out in this report be approved, including:

   - the adoption of the Prudential Indicators 2010/11-2012/13 setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Government) and the Treasury Management Prudential Indicators that are now in CIPFA Treasury Management Code of Practice.

   - A revision of the Capital Financing Requirement for 2009-10 current year.

   - the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP which sets out how the Council will pay for capital assets through revenue each year.

   - the Investment Strategy 2010/11 contained in the Treasury Management Strategy, and the detailed criteria included in Appendix B.

   - the capital programme has created a borrowing requirement. The borrowing limits on are set out in paragraph 4.2.12.

2. The revision to the Council's Constitution, Financial Procedure Rules at Appendix A as laid down by the revised CIPFA Treasury Management Code of Practice be approved. Principal Scrutiny Committee should note that under the code they are to be responsible for effective scrutiny of the treasury management strategy and policies.

3. That Members note:

   - that the Strategy be kept under regular review to take account of any changes in the current global economic situation and pending DCLG Investment guidance: and

   - the updated Treasury Management Practices as set out in Appendix B.

.

CABINET

3 February 2010

PRINCIPAL SCRUTINY COMMITTEE

8 February 2010

TREASURY MANAGEMENT STRATEGY 2010-11

REPORT OF HEAD OF FINANCE

1. Introduction

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2012/13.

1.2 Key aspects of the system are the *Code of Practice for Treasury Management in the Public Service*s 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 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The CLG is currently consulting on changes to the Investment Guidance. The revised guidance arising from these Codes has been incorporated within these reports, with the CLG proposals being incorporated where these do not conflict with current Guidance. If necessary the Investment Strategy contained in Appendix B will be revised if any elements of the final CLG Investment Guidance have not already been covered.

1.4 The Council complies with these codes and the investment guidance.

2. Treasury Management Policy Statement

2.1 The Council defines its treasury management activities as:
The management of the Council's investment and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

2.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. Prudential Code

3.1 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.

3.2 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.

4. Prudential Indicators

4.1 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.

4.2 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

4.2.1 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.

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

	2009/10 Revised £million	2010/11 Estimate £million	2011/12 Estimate £million	2012/13 Estimate £million
Capital Expenditure				
Non-HRA	11.4	14.0	5.5	1.7
HRA	4.2	5.2	4.6	4.6
Financed by:				
Non - HRA				
Government grants	0.5	0.4	0.4	0.4
External contributions	1.1	0.8	0.3	0.3
Earmarked reserves	1.1	1.1	0.0	0.0
Major Investment reserve	0.8	1.0	0.0	0.0
Capital receipts	4.8	2.5	2.5	3.0
HRA				
Major repairs allowance	3.2	3.7	3.5	3.5
Revenue Reserves	0.0	0.1	0.0	0.0
Capital Receipts	1.0	1.4	1.1	1.1
Net financing need for the year	**3.1**	**8.2**	**2.3**	**(2.0)**

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

4.2.3 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.

4.2.4 ***The Council is asked to approve the CFR projections below:***

	2009/10 Revised £million	2010/11 Estimate £million	2011/12 Estimate £million	2012/13 Estimate £million
Capital Financing Requirement				
CFR – Non Housing	(7.0)	1.1	3.2	1.1
CFR - Housing	10.1	10.1	10.1	10.1
Total CFR	**3.1**	**11.2**	**13.3**	**11.2**
Movement in CFR	**3.1**	**8.1**	**2.1**	**(2.1)**

Movement in CFR represented by				
Net financing need for the year (above)	3.1	8.2	2.3	0.0
MRP/VRP and other financing movements	0.0	(0.1)	(0.2)	(2.1)
Movement in CFR	**3.1**	**8.1**	**2.1**	**(2.1)**

4.2.5 The Council has positive CFR – Non Housing so it is 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).

4.2.6 The 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.

4.2.7 ***The Council is recommended to approve the following MRP Statement***:

> For all unsupported borrowing the MRP policy will be:
>
> **- 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)

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

4.2.8 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	**2009/10 Revised £million**	**2010/11 Estimate £million**	**2011/12 Estimate £million**	**2012/13 Estimate £million**
General Fund balance	2.0	2.0	2.0	2.0
HRA balances	1.1	1.1	1.1	1.1
Capital receipts	2.3	1.8	0.4	1.5
Earmarked reserves	5.0	2.6	1.8	1.8
Other Balances.	3.1	2.3	2.2	2.3
Total Core Funds	**13.5**	**9.8**	**7.5**	**8.7**
Working Capital*	3.4	3.4	3.4	3.4
Capital Financing Requirement	(3.1)	(11.2)	(13.3	(11.2)
Expected Investments/ (Borrowing)	**13.8**	**2.0**	**(2.4)**	**0.9**

***** 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

4.2.9 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 2010/11 and the following two financial years.

£m	2009/10 Revised	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
Gross Borrowing	0.0	0.0	2.4	0.0
Investments	13.8	2.0	0.0	0.9
Net Borrowing	0.0	0.0	2.4	0.0
CFR	3.1	11.4	13.5	11.3

4.2.10 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.

4.2.11 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.

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

Authorised limit	**2009/10 Revised £million**	**2010/11 Estimate £million**	**2011/12 Estimate £million**	**2012/13 Estimate £million**
Borrowing	7.0	7.0	9.4	9.4
Other long term liabilities	0.0	0.0	0.0	0.0
Total	**7.0**	**7.0**	**9.4**	**9.4**

Operational Boundary	**2009/10 Revised £million**	**2010/11 Estimate £million**	**2011/12 Estimate £million**	**2012/13 Estimate £million**
Borrowing	2.0	3.5	4.4	4.4
Other long term liabilities	0.0	0.0	0.0	0.0
Total	**2.0**	**3.5**	**4.4**	**4.4**

4.2.13 A limit of £7million is proposed, to allow for unforeseen circumstances, with an operational boundary set at £2 million to allow for temporary cash flow needs, pending receipt of other funds. These limits are increased in 2011/12 as unfunded capital expenditure is expected to exhaust investment balances.

4.3 Affordability Prudential Indicators

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:

4.3.1 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 in 2009-10 to 2011-12 because net investment income is forecast, 2012-13 is the only year with net interest payable. The HRA has a capital financing requirement (CFR) of £10.1m. The increase in the HRA % is due to the forecast of interest rates recovering from a historically low base. The HRA CFR remains fixed at the value computed when this issue was last addressed by CLG for the HRA subsidy system. The subsidy system is currently under review which will have a radical impact on these figures. No attempt has been made to incorporate an estimate at this time as the revision is under consultation.

Affordability Indicator	2009/10 Revised %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
Non-HRA	0.0	0.0	0.0	0.1
HRA	0.4	0.7	1.1	2.0

4.3.2 Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans.

4.3.3 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 the cumulative effect of

	Proposed Budget 2010/11 £.p	Forward Projection 2011/12 £.p	Forward Projection 2012/13 £.p
Council Tax - Band D	3.97	10.43	16.57

interest lost on investments and the Minimum Revenue Provision (MRP).

Interest rates are forecast to rise from 1% to 4.5% in 2012-13 which is significantly adding to the figures. If interest was to remain at 1% 2012-13 would become £6.81.

4.3.4 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.

4.3.5 Incremental impact of capital investment decisions Housing Rent levels:

	Proposed Budget 2010/11 £.p	Forward Projection 2011/12 £.p	Forward Projection 2012/13 £.p
Weekly Housing Rent levels	0.05	0.09	0.18

The major reason for the increase is the forecast rise in interest rates to 4.5% in 2012-13. If interest remained at 1.0% the level in 2012-13 would only be £0.04.

5. Treasury Management Strategy 2010/11 – 2012/13

5.1 The treasury management service is an important part of the overall financial management of the Council's affairs. The investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. 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.

5.2 This strategy covers:

- The Council's debt and investment projections;
- The Councils estimates and limits on future debt levels
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities..

6 Debt and Investment Projections 2010/11 – 2012/13

6.1 Based on the proposed capital programme (CAB1963) the Council's investments will diminish and the Council will go into debt towards the end of 2011-12. The nature of the Council's cash flow is that the majority of the year 2011-12 the Council will be an investor but the last three months there is a net outflow of cash, the Council will have to borrow. In 2012-13 a forecast capital receipt will again make the Council an investor. As at 31 December 2009 short-term investments totalled £28 million and there was £1 million invested in the Local Authorities Mutual Investment Trust (LAMIT) currently valued at £0.8million.

6.2 The projections are:

	2009/10 Revised £million	2010/11 Estimate £million	2011/12 Estimate £million	2012/13 Estimate £million
External Debt				
Debt at 1 April	0.0	0.0	0.0	2.4
Expected change in debt	0.0	0.0	2.4	(2.4)
Debt at 31 March	0.0	0.0	2.4	0.0
Operational Boundary	2.0	2.0	4.4	4.4
Investments				
Total Investments at 31 March	13.8	2.1	0.0	0.9
Investment change	(11.2)	(11.7)	(2.1)	0.9

6.3 Expected Movement in Interest Rates

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2009/10	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.3	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

6.4 Sensitivity to interest rate movement:- future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 0.25% increase/decrease in all interest rates to the estimated treasury management costs/income for next year

£000's (Increase)/Reduction in income	2010/11 Estimated + 0.25%	2010/11 Estimated - 0.25%
Revenue Budgets		
Related HRA Charge *	(17)	17
Net Investment income	(36)	36
Total effect on General Fund	(53)	53

* The effect on the HRA will be exactly opposite to the figures shown in the table i.e. the contra adjustment.

7. Borrowing Strategy 2010/11 – 2012/13

7.1 It is expected that the Council will need to borrow in 2010-11 to 2012-13. Given the nature of the Council's cash flows for significant parts of each of the years the Council will still be an investor, therefore any borrowing will be on a temporary short term basis (i.e. for less than 365 days) and practically a lot shorter than that. Depending on the time of the month and month of the year the Council's cash requirements can fluctuate by approximately £15m.

7.2 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.

8. Investment Strategy 2010/11 – 2012/13

8.1 The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective.

8.2 In response to the exceptional circumstances in 2008 the Council implemented a revised restrictive Investment Strategy (detailed in CAB1754). The relaxation of this strategy (CAB1931 9 December 2009) was approved by full Council 13 January 2010 as more normal market conditions arose, although markets remain nervous. Council added a footnote to the Schedule included as Appendix B to this report, to explain the circumstances in which certain building societies could be considered under Tier 4, should their ratings improve.

8.3 There has not been a significant change to circumstances since CAB1931 was presented. It is proposed to continue with the current Investment Strategy with exception of changing the criteria of tier 2 (see below) to give operational flexibility so that UK Government's Debt Management Office at very low rates (0.25%) is truly an option of last resort.

8.4 The detailed counter party criteria are set out in Appendix B. Previously tier 2 was for investments with UK nationalised institutions, which was only Northern Rock, which has now been restructured. It is proposed to relax the criteria to UK Banks in which the UK government have a significant share holding. Currently meeting the criteria are the Lloyds Group and Royal Bank of Scotland Group. Other criteria required are:
* Long term rating of A and above with all three agencies where rated.

8.5 The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

8.6 <u>Security</u>

The CLG guidance makes a distinction between Specified and Non-specified investments:

8.6.1 ***Specified investments*** – offer high security and high liquidity and authorities can rely on them with "minimal procedural formalities". They are investments which
- Are in sterling
- Mature within 364 days
- Are of a "high credit rating/quality.

8.6.2 The wording in the new guidance changes from "High credit rating" to "High credit quality*. This means that "other" criteria in addition to credit ratings should be taken into account. The determination of what "other" criteria are – is currently left to local discretion although the CIPFA Treasury Management Panel will be issuing guidance in the future.

8.6.3 Tiers 1-4 of the proposals are considered to be Specified Investments.

8.6.4 The credit ratings are monitored daily and should they drop below the level specific in Appendix B they will be removed from the counterparty list and will not be considered for investment. If money is already invested the Head of Finance will take a view on all circumstances. Under current market circumstances it is unlikely that early repayment is an option. Under more normal market circumstances it is possible but there is a high cost attached.

8.6.5 ***Non-specified investments*** - are all those which do not qualify as "***specified"*** and therefore have greater potential risk.

8.6.6 These include the Council's investment in the Local Authorities Mutual Investment Trust, which is a long term investment at an historical cost of £1m.

8.6.7 Should a Counterparty drop below any of the criteria it will be removed from the counterparty list and will not be considered for investment. If money is already invested the Head of Finance will take a view on all circumstances. Under current market circumstances it is unlikely that early repayment is an option. Under more normal market circumstances it is possible but there is a high cost attached.

9 Treasury Management Prudential Indicators and Limits on Activity

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

	2010/11	**2011/12**	**2012/13**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%
Limits on fixed interest rates • **Debt only** • **Investment only**	 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates • **Debt only** • **Investment only**	 100% £5.0m	 100% £5.0m	 100% £5.0m
Maturity Structure of fixed interest rate borrowing 2010/11			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0	£5.0m
2 years to 5 years		0	£5.0m
5 years to 10 years		0	£5.0m
10 years and above		0	£5.0m
Maximum principal sums borrowed			
Authorised limit	£7.0m	£ 9.4m	£9.4m
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£2.0m	£2.0m	£2.0m

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 C 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.

- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

Performance against these indicators will be reported in the Treasury Annual Report for 2010/11.

12. Other holdings:

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)**
31st March 2004	£1,193,000	193,000
31st March 2005	£1,136,000	136,000
31st March 2006	£1,527,000	527,000
31st March 2007	£1,335,000	335,000
31st March 2008	£ 821,000	(189,000)

**Source: Statement of Accounts*

12.1.2. The latest quoted bid price (December 2009) is £0.88 million. The impairment was deferred in 2008-09 in the expectation that more normal markets would return. 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 annual yield based on historic cost is 6.4%. This is dependant on property rents. The recession so far has had little impact on the yield, 6.6% last year. This yield is not likely to be matched in the short term from rates obtainable on other 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. To date the Council has received 2 distributions from the Administrator:
July 2009 £161,817
December 2009 £127,031
a third distribution is expected during the course of 2010.
The current forecast is that the Council will recover 80% by 2013.

12.2.4. The Council has also lodged a claim on the Heritable Bank's parent Landsbanki in respect of guarantee and indemnity provided.

13. Treasury Management Advisors

13.1. The Council uses Butlers as its treasury management consultants. The company provides a range of services which include

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Generic investment advice on interest rates, timing and investment instruments.

13.2. Whilst the advisors provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

OTHER CONSIDERATIONS:

14. SUSTAINABLE COMMUNITY STRATAGY AND CORPORATE BUSINESS PLAN (RELEVANCE TO):

14.1. The Treasury Management Strategy supports all tenets of the Sustainable Community Strategy including the core value of being efficient and ensuring value for money.

15. RESOURCE IMPLICATIONS:

15.1. The collapse in interest rates during 2008-09 had a significant impact on the 2009-10 budget, this effect continues into 2010-11 as the budgeted interest rate of 1% is the same as the revised estimate for 2009-10, rates are not forecast to rise above 4% until 2012-13. A change in interest rate of 0.25% would alter investment income by circa £53,000 in 2010/11.

16. RISK MANAGEMENT

16.1. These are considered within the report

17. BACKGROUND DOCUMENTS

17.1. Operational and financial records held in the Finance Division

17.2. Department of Communities & Local Government regulations on MRP Statement

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

17.3 Constitution, Financial Procedure Rules

18. APPENDICES:

Appendix A: Treasury Management Clauses in Constitution, Financial Procedure Rules

Appendix B: Approved List of Financial Institutions and Investment Criteria effective from 1st April 2010

Appendix C: Treasury Management Practices

Appendix D: Ratings Definitions

Treasury Management Clauses to form part of Constitution, Financial Procedure Rules.

5.4 This Council adopts the key **principles** of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 4 of that Code.

5.5 Accordingly, this Council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies and objectives **and approach to risk management** of its treasury management activities

- suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

5.6 The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.

5.7 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Head of Finance, who will act in accordance with the Council's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management. During 2009/10 the Cabinet set up an informal member / officer group to advise it on treasury management matters.

5.8 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, **a mid year review** and an annual report after its close, in the form prescribed in its TMPs.

[New] The Council nominates Principal Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Bold = Changes

Approved List of Financial Institutions and Investment Criteria

Classification	Description	Institution	Requirements	Maximum total investment
Tier 1	Investments with UK government	DMADF	6 months (max)	No limit
		Local Authorities	Max 364 days	£10m total
				£2m per authority
		UK Govt backed AAA Money Market Funds		£3m total
				£1m per fund
Tier 2	**Investments with UK Banks that have significant UK Government Shareholdings**	**Currently meeting criteria:-**	**Long term rating of A and above with all three agencies*, where rated**	**£3m per Group**
		Lloyds Group **Royal Bank of Scotland - (including National Westminster current account)**	**Max 364 days**	**£6m for Tier including Nat West Current account**
Tier 3	Investments with UK Banks that are Eligible Institutions of the 2008 Credit Guarantee Scheme.	Currently meeting criteria:-	Long term rating of A and above with all three agencies*, where rated	£1m per institution
		Barclays		£10m for Tier
		Close Brothers Group		
		Clydesdale Bank	Max 364 days	
		Co-operative Bank		
		HSBC		
		N M Rothschild & Sons		
		Santandar UK PLC		
		Sumito Mitsui Corporation Group		
		Standard Chartered		
		Standard Life		

Classification	Description	Institution	Requirements	Maximum total investment
Tier 4	A Rated Investments with UK Building Societies that are Eligible Institutions of the 2008 credit Guarantee Scheme	Currently meeting criteria:-	Long term rating of A and above with all three agencies*, where rated	£1m per institution
		Coventry		£10m for Tier
		Leeds		
		Nationwide		
		Nottingham	Max 364 days	
* Agencies:-	Fitch			
	Moodys			
	Standard & Poors			

Bold = changes proposed by this report

Note Tiers 1,3 & 4 remain unchanged from current policy implemented by CAB1931, 9 December 2009

Tier 2 is new and singles out the UK Banks with significant UK Govt ownership and increases the limits from £1m to £3m per group.

Note Tier 4 – The top 30 Uk Building Societies by net assets that are eligible institutions of the 2008 Credit Guarantee Scheme may also be considered under Tier 4 if their rating improves to meet the criteria for that Tier. Institutions which come within the 2008 Scheme which do not currently meet the criteria include the following societies: Cambridge, Cumberland, Darlington, Furness, Hinkley and Rugby, Ipswich, Kent Reliance; Leek United, Manchester, Market Harborough, Melton Mowbray, Monmouthshire, National Counties, Newbury, Newcastle, Norwich and Peterborough, Nottingham, Principality, Progressive, Skipton, Stroud and Swindon, Tipton and Coseley, West Bromwich, and Yorkshire/Chelsea.

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 Procedures 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

The Head of Finance 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 organisations 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 follows in the following TMP's.

1. 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.

2. 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*.

3. 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.

4. 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.

5. 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.

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 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 – 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.

SCHEDULE

1 Performance measures and targets

Investments

- Average return on investments to exceed bank base rate

Borrowing

- To ensure that any borrowing is prudent, affordable and sustainable

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*.

SCHEDULE

1 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 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 mid year Stewardship Report 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 mid year Stewardship Report
Prepare annual Stewardship Report
Prepare monthly Outturn / Forecast Reports to Head of Finance
Liaise with TM advisors on strategic issues
Liaise with bank on contract matters
Ensure treasury management staff numbers are adequate and properly trained
Review internal scheme of management annually
Review banking contract periodically
Monitor treasury management performance through monthly reports to Head of Finance
Authorise bank(all)/cash/investment balance sheet reconciliations monthly
Develop, implement and maintain performance measures
Develop and maintain cash flow model for forecasting

Financial Accountant

Regular liaison with TM advisors
Review investment counterparty list with TM advisors and advise HoF/PFA of changes
Verify Counterparty identity
Prepare weekly cash flow and forecast transactions report
Prepare daily cash requirement
Take daily dealing decisions consistent with counter party list
Maintain register of borrowing and investment activity
Reconcile bank (Drawings)/cash/investment balance sheet 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
- a mid year review
- 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 Cabinet informal member /officer group will receive regular monitoring reports on treasury management activities and risks

The Principle Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices

The Council will report the treasury management indicators as detailed in CIPFA Treasury Management Guidance Notes for Local Authorities

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 Mid Year Review Report will be considered by Cabinet and Principal Scrutiny Committee in advance of being presented to Council for approval, usually in November of the year under review
- The Treasury Management Stewardship Report will be considered by Cabinet and Principal Scrutiny Committee in advance of being presented to Council 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 to 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 the Cabinet informal member/officer group 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 *Performance management*, and TMP4 *Approved instruments, methods and techniques*. 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.

.

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 Financial 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 produce monthly balance sheet reconciliations for investments/cash/bank which will be authorised by the Principal Financial Accountant. .

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 – 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.

The Head of Finance 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 those responsibilities

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

---

SCHEDULE

- The Council will be represented at the Local Government Associations Capital Conference and any other LGA meetings that impact on treasury management.
- The Council will be represented at the conferences organised by the Councils treasury management consultants.
- Head of Finance, Principal Financial Accountant and Financial Accountant will attend at least one treasury management related continuing professional development course every year.
- Head of Finance will organise one session of members training every year and organise any ad hoc training for members as requested

TMP11 – USE OF EXTERNAL SERVICE PROVIDERS

This Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure 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. 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.

SCHEDULE

Service	Provider	Start Date	Period
Banking Services	National Westminster	April 2007	4 years
TM Advice	Butlers	2007	3 years
Brokerage Services	Tradition UK Ltd	)	
	Sterling Brokers Ltd	) London Money Market brokers	
	ICAP	)ongoing and used as required	
	Prebon	)	
	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