

Cabinet: 6 March 2012
Audit and Governance Committee: 7 March 2012
Council: 22 March 2012

TREASURY MANAGEMENT POLICY STATEMENT 2012/2013

EXECUTIVE SUMMARY

1. Each year every local authority is required to approve a policy statement which will govern its day-to-day Treasury Management objectives for that year.
2. This report and its appendices set out the policy statement for the 2012/2013 financial year.

Is the report Open or Exempt?	Open
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Wards Affected:	All Wards across the District
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Cabinet Member:	Councillor R Whiting Portfolio Holder for Resources
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BACKGROUND PAPERS

Treasury Management in the Public Services - CIPFA

Reference: M:\Accy\Investments\Treasury Management Policy Document 20122013.doc

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1. PURPOSE

- 1.1 Each year every local authority is required to approve a policy statement which will govern its day-to-day Treasury Management objectives for that year. In this context Treasury Management is the management of the Council's investments, cash flows, its banking, money market and capital market transactions; the effective control of risk associated with those activities; and the pursuit of optimum performance consistent with those risks. The report seeks the Cabinet's approval to a policy statement for 2012/13 which is attached as appendix 1 together with a statement of responsibilities as appendix 2.

2. TREASURY MANAGEMENT POLICY STATEMENT 2012/13

- 2.1 Following the collapse of Icelandic banks and the uncertainty that remains within the financial sector, management of cash continues to be a major area of risk for the Council. Treasury Management is about the management of that risk but it remains that no treasury management activity is without risk. During the past year the major rating agencies have cut the credit ratings applicable to both countries and individual institutions. Unlike many Councils, this Council has never implicitly specified a minimum credit rating in its Treasury Management Policy Statement and this approach enabled the Council to continue placing funds with organisations that suffered recent downgrades whilst many authorities had to temporarily suspend organisations pending emergency approval of a revised policy statement. It is believed that the financial organisations in question are systemically important to the financial system and would receive Government support in times of difficulty. This has been recognised by the Council's treasury advisors who have reduced their minimum credit rating for organisations they recommend for 2012/13. This is not to say that the Council does not respond to the published downgrades and uncertainties because in recent times a number of organisations that the Council has previously dealt with by lending money for up to a year have had their limits cut to periods not exceeding one month or in extreme cases merely overnight. It should be recognised that these are exceptional times in the financial markets and the Council is taking a proactive approach in exercising its primary objective of safeguarding the public funds that it holds.

2.2 Approved Organisations for Investment

- 2.2.1 Following the formalisation of the management structure between Suffolk Coastal and Waveney and in aligning the operational aspects of the services as appropriate, the approved investment lists are further aligned to aid joint working. Full consistency will never be achieved due to differing cash sums available and investment limits.
- 2.2.2 After showing signs of greater stability in the early part of 2011 conditions in the financial sector have begun to show further signs of stress with the lack of a credible solution to the Eurozone crisis and its links to individual banks. Rates within Interbank markets (where banks fund the majority of their day to day operations) continue to climb. This dynamic was a feature of the banking crisis that occurred in 2008 and whilst the authorities have flooded the markets with liquidity it still provides a key barometer of rising risk within markets.
- 2.2.3 The 2011/12 policy statement allowed the use of foreign banks for the first time although to date no funds have been placed with these institutions. Indeed, in response to recent events all non UK European Banks have been internally suspended from the Council's approved investment list. It is proposed that Spanish banks are now removed from the Council's approved list but other European Banks are retained but remain temporarily suspended pending the outcome of the European

debt crisis. Reinstatement would only take place on the advice of Arlingclose. Over recent months increased use has been made of money market funds which as well as being liquid, spread the level of risk which is seen as an important factor. As a prudent step the Council restricts its investment to no more than 0.5% of the total fund or no more than 10% of the Councils portfolio with an individual fund. In determining an approved investment list for 2012/13, Council is being recommended to approve a list that provides officers with sufficient flexibility to manage the Councils investments in a way that seeks to safeguard capital and respond to market conditions.

2.2.4 The countries, and the Banks within them on the approved investment list, have been selected and recommended by Arlingclose after analysis and careful monitoring of:

- a) Published Credit Ratings
- b) Credit Default Swaps
- c) Economic Fundamentals ;eg. Net Debt as a percentage of GDP
- d) Sovereign Support Mechanisms / Potential support from a well-resourced parent institution
- e) Share Price
- f) Corporate developments, news, articles, markets sentiment and momentum
- g) Subjective overlay – or, put more simply, common sense.

* Any institution can be suspended or removed should any of the factors identified above give rise to concern.

* Exposure to non UK Banks will be restricted to no more than 20% of the investment portfolio being invested in any one country.

* Investments will still be placed in £ sterling and will not be subject to exchange rate risk.

* Investments in Money Market Funds will be restricted to no more than 0.5% of the total fund or no more than 10% of the Councils portfolio with an individual fund.

3. FINANCIAL AND GOVERNANCE IMPLICATIONS

Security of the Council`s cash is the over-riding consideration in setting its Treasury Management Policy Statement. The Council is constantly reviewing advice from Arlingclose with regard to the creditworthiness of financial institutions in order to inform investment decisions.

4. REASON FOR RECOMMENDATION

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy in advance of each financial year. This strategy sets out the Council`s policies for managing its investments and for giving priority to the security and liquidity of those investments.

RECOMMENDATION

It is recommended that Cabinet approves the Treasury Management Policy Statement and the Statement of Responsibilities for 2012/13 and recommend its approval by Council.

**TREASURY MANAGEMENT
POLICY STATEMENT**

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1. TREASURY MANAGEMENT OPERATION

1.1 Treasury Management is:

" the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks

1.2 The Council acknowledges that effective treasury management provides support towards the achievement of its objectives. It is therefore committed to achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

1.3 The approved activities of the Treasury Management operation are as follows:

- (a) Cash flow forecasting (daily balances and longer term forecasting).
- (b) Investing surplus funds in Approved Investments.
- (c) Borrowing to finance cash deficits.
- (d) Funding of capital payments through borrowing, capital receipts, grants and leasing.
- (e) Management of debt.
- (f) Interest rate exposure management.
- (g) Dealing procedures with brokers, banks, building societies and the Public Works Loans Board (PWLB).
- (h) Consideration of the use of external managers for temporary investment of funds.

1.4 When undertaking these operations all staff will have regard to the CIPFA "Code of Practice for Treasury Management in the Public Services". Accordingly, the Council has created and maintains, as the cornerstones for effective treasury management:

- (a) A treasury management policy statement, stating the policies and objectives of its treasury management activities; and
- (b) Suitable treasury management practices, as set out in the Treasury Management Policy Statement, to achieve those policies and objectives which prescribe how it will manage and control those activities.

1.5 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, with effective scrutiny from the Audit and Governance Committee, with the execution and administration of treasury management decisions to the Head of Service with Section 151 Responsibility, who will act in accordance with the Council's Policy Statement and CIPFA's Standard of Professional Practice on Treasury Management.

2. BALANCED BUDGET REQUIREMENT

2.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

3. ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 3.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.
- 3.2 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements it is proposed that the MRP is determined by reference to the life of the asset. This will ensure that sufficient monies have been set aside to repay that debt when the asset reaches the end of its useful life and that the Council is not supporting debt repayments for assets that have reached the end of their economic life or have been disposed of. As the Council is not planning to borrow during 2012/13 to finance its capital investment plans no provision has been included within the revenue account for the repayment of debt.

4. INVESTMENT POLICY AND STRATEGY

Background

- 4.1 Guidance from Communities and Local Government (CLG) on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the TMSS and the AIS to be combined into one document.

Investment Policy

- 4.2 The Council’s general policy objective is to invest its surplus funds prudently. The Council’s investment priorities are:
- security of the invested capital;
 - liquidity of the invested capital;
 - an optimum yield which is commensurate with security and liquidity.

The speculative procedure of borrowing purely in order to invest is unlawful.

- 4.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the DCLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” definition as determined by the Council and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

- 4.4 The types of investments that could be used by the Council are as follows:

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

4.5 A number of changes have been implemented to the investment strategy for 2012/13 in response to changes in the DCLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the DCLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Council is prepared to lend its funds.

4.6 The Head of Service with s151 responsibility, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

4.7 **Use of External Service Providers**

The Council recognises that in some circumstances the potential value of employing external treasury services could be beneficial in order to acquire access to specialist skills and resources. If it employs such providers, it will ensure it does so for reasons which will have been submitted to a full Business Case Appraisal 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 are subjected to regular review. Arlingclose are the Council's current treasury advisors. As well as being independent of all other financial institutions, it has many local authority clients, and are the only public sector advisor who didn't have any clients with money in Icelandic banks at the time of the crisis.

4.8 **Forecasts for 2012/13**

The following table shows the latest estimate of base rates through until the end of 2013 based upon the following assumptions made by the Council's advisors, Arlingclose:

- Inflation to subside markedly in 2012 as the twin effects of the VAT increase and surge in oil prices fall out of the twelve month series.

- Economic growth remaining largely illusive not helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone. Even if a credible and effective policy is implemented, the scale of the problems means that there is likely to be a prolonged period of subdued growth within the euro area. A failure to meet the challenges would almost certainly have significant implications for the global economy.

- Recent data and surveys suggesting that the UK economy has lost the admittedly fragile momentum since the summer. Business and consumer surveys point to continued weakness in coming months and the situation in the euro area is likely to further undermine confidence and lead to tighter credit conditions for households and firms.

- Against this uncertain backdrop the ability of the economy (government, companies and individual consumers) to accommodate an increase in the cost of money through higher interest rates – in the absence of a deterioration in the high credit standing that the UK enjoys – remains unlikely.

	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
<i>Official Bank Base Rate</i>										
Upside Risk						+0.25	+0.50	+0.50	+0.50	+0.50
Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

5. APPROVED ORGANISATIONS FOR INVESTMENT

5.1 Lending lists are to be continuously reviewed, and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's treasury advisors, Arlingclose.

5.2 The current counterparties on the Councils approved list include (with the institutions in bold currently being temporarily suspended on the advice of Arlingclose due their credit ratings and the European debt crisis):

- UK Banks: (£7 million limit)
 - Barclays
 - HSBC
 - Lloyds incorporating HBOS/Bank of Scotland
 - Royal Bank of Scotland incorporating National Westminster
 - Standard Chartered Bank
- UK Banks/ Building Societies: (£5 million limit)
 - Coop (The Councils bankers)
 - **Clydesdale**
 - Nationwide Building Society
 - Santander (UK)
- Non UK Banks: (Up to £3million)
 - Australia and NZ Banking Group
 - Commonwealth Bank of Australia
 - National Australia Bank Ltd
 - Westpac Banking Corp (Australia)
 - Bank of Montreal (Canada)
 - Bank of Nova Scotia (Canada)
 - Canadian Imperial Bank of Commerce
 - Royal Bank of Canada
 - Toronto-Dominion Bank (Canada)
 - **Nordea Bank Finland**
 - **BNP Paribas (France)**
 - **Calyon Credit Agricole Group (France)**
 - **Deutsche Bank AG (Germany)**
 - **Rabobank (Netherlands)**
 - **Credit Suisse (Switzerland)**
 - JP Morgan (US)

- UK Building Societies: (£1 million limit)

- o **Yorkshire Building Society**
- o **Coventry Building Society**

Note: Other than the UK, no more than 20% of the portfolio will be directly invested in any one country at the time of placing the investment.

- Up to £5 million may be placed with individual local authorities
- Up to 10% of the Councils investment portfolio may be placed in any one Money Market Fund with the necessary Triple Am rating as required by Government legislation (limit to 0.5% of the overall fund size)
- Up to 20% of the Councils investment portfolio may be placed in UK Gilts
- Up to 20% of the Councils investment portfolio may be placed in bonds issued by the European Investment Bank
- An unlimited sum may be placed in the Government's Debt Management Account (the default position in the event of banks becoming unstable)

6. BORROWING

6.1 At its meeting on 22 February, Council approved a Capital Investment programme for 2012/13 which could be financed within existing resources and without the requirement for borrowing. Additionally, Council approved the statutory Prudential Indicators which for ease of reference and completeness as appendix 3. The Indicators set limits for external borrowing, £100,000 (most likely scenario) and an overall approved limit £7.8 million. Any such borrowing would be from the following approved sources:

- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Local authority bills
- Structured finance
- Bank overdraft
- Public Works Loan Board loans (PWLB)
- Borrowing from other local authorities
- Internal Borrowing

Internal funds include 'reserved' or 'set aside' capital receipts which are to be used to repay debt or as a substitute for new borrowing. There is no provision in legislation to compel authorities to use such receipts in the year received, and it is Council practice to invest surplus funds externally until needed to fund investment.

7. RISK MANAGEMENT

7.1 General

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities.

The S151 officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives.

The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

7.2 **Liquidity**

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

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so to finance its capital investment plans or to finance future debt maturities.

7.3 **Interest Rates**

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 and in accordance with its approved Prudential Indicators.

7.4 **Inflation**

The Council will make a prudent estimate of inflation costs within its capital and revenue budgets.

7.5 **Credit and Counterparty**

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

7.6 **Refinancing Risk Management**

The Council will ensure its borrowings are negotiated, structured and documented, and the maturity profile of the monies 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 be reasonably achieved in the light of market conditions prevailing at the time.

7.7 Legal and Regulatory

The Council will ensure that all 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 it will ensure there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the Council. It is recognised that future legislative or regulatory changes may impact on its treasury management activities and, so far as is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

7.8 Fraud, Error and Corruption and Contingency Management

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 eventuality in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will be 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.

7.9 Markets

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

8. DELEGATED POWERS

8.1 Cabinet

The Cabinet has plenary powers in relation to all borrowing and investment matters, except for the setting of borrowing limits, which requires an annual resolution by full Council.

8.2 Head of Service with Section 151 Responsibility

The Head of Service has the following delegated powers:

(a) Borrowing

- To borrow temporary loans up to the maximum permitted.
- To issue negotiable bonds subject to Council authority having been granted and rates being acceptable.
- To borrow up to the maximum PWLB quota (if available).
- To repay PWLB loans prematurely where it is in the Council's interest to do so.
- To borrow money market deposits where appropriate.
- To ensure compliance with the Code of Borrowing Practice.
- To ensure all documentation is properly dealt with.
- To manage the Council's borrowing portfolio in the light of the Council's strategy.

(b) Leasing

To accept the lowest competitive tender for leasing requirements and subsequently sign all necessary documentation.

(c) Investment

To manage the investment of surplus funds in the light of the Council's approved investment strategy.

9. MANAGEMENT INFORMATION AND REVIEW AND REPORTING ARRANGEMENTS

9.1 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure the reasons are properly reported, and the implications fully considered and evaluated.

The Head of Finance will ensure there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover and that these policies and procedures are adhered to.

9.2 Budgeting, Accounting and Audit Arrangements

The Council maintains records of its treasury management decisions and of the processes and practices applied in reaching those decisions to ensure reasonable steps were taken to ensure all issues relevant to those decisions were taken into account at the time.

Unless statutory or regulatory requirements demand otherwise, all monies of the Council will be aggregated for cash flow and investment purpose.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors and those charged with regulatory review have access to all information and papers supporting the treasury management function and its activities as are necessary for the proper fulfilment of their roles.

9.3 **Reporting Arrangements**

The Head of Service will report to the Cabinet on all activities on the Treasury Management function, including an annual report by 30th September of each financial year and an Annual Policy Statement prior to the commencement of each financial year. In addition, significant Treasury Management matters in year will be implemented through the Constitutional decision making process and Treasury Management will form part of the Quarterly Performance report to Cabinet (in-year review)

The Head of Service will report on borrowing limits for the coming year to an appropriate meeting of Council prior to that year commencing.

The Audit and Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The Treasury Management Strategy will be shown on the Council's website.

9.4 **Corporate Governance**

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

9.5 **Money Laundering**

The Council will be 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, the Audit Partnership Manager will maintain procedures for verifying and recording the identity of counterparties and recording suspicions.

10. **ORGANISATION, CLARITY AND SEGREGATION OF DUTIES**

10.1 **Cash and Cashflow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the S151 officer and will be aggregated for cash flow and investment management purposes. Cashflow projections will be ongoing to ensure sufficient liquidity is maintained for the Council to meet its obligations.

The Head of Finance will ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

10.2 **Staff training and qualifications**

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

The Head of Finance will ensure all councillors tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs. The Audit and Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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

ROLES/JOB DESCRIPTIONS RELATING TO TREASURY MANAGEMENT

HEAD OF PAID SERVICE

CHIEF EXECUTIVE

1. Ensure that a Treasury Management System is laid down and resourced.
2. Ensure that the S151 Officer reports regularly to the Cabinet on Treasury policy, activity and performance.
3. Ensure compliance by the S151 Officer with the Treasury Policy Statement and that the Statement complies with the law.
4. Satisfy himself that any proposal to vary Treasury policy or practice complies with the law or any code of practice.
5. Advise the S151 Officer where advice is sought.

HEAD OF SERVICE WITH S151 OFFICER RESPONSIBILITY

HEAD OF FINANCE & CENTRAL SERVICES

1. Ensure Policy documents exist and are adhered to, and that they are regularly reviewed.
2. Ensure that a review of the Treasury Management function and its performance takes place on a quarterly basis.
3. Report to the Cabinet on performance and activities of Treasury Management.
4. Submit to the Cabinet an annual report covering all items of the Treasury Management operation for the previous financial year.
5. Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover.
6. Ensure that adequate fidelity insurance is arranged for all staff involved in Treasury Management.
7. Keep under review the credit standing of potential counterparties and make recommendations to the Cabinet as to the Council's Approved Investment List.
8. Ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out.
9. Ensure that those charged with scrutiny of the Treasury function are properly trained to fulfil their role effectively.

CABINET

1. Agree Treasury Policy Statement and variations thereon.

2. Monitor Treasury Policy Statement.
3. Receive cyclical and annual reports.
4. Determine an Approved Investment List.

AUDIT AND GOVERNANCE COMMITTEE

1. To ensure effective scrutiny of the Treasury Management strategy and policies.

TREASURY MANAGEMENT MONITORING OFFICER

FINANCE MANAGER

1. Manage the overall treasury function.
2. Ensure that a Treasury Policy Statement is prepared, reviewed and complied with and that this statement complies with the law.
3. Ensure that a Treasury Systems Document exists.
4. Review the borrowing plan before the beginning of each financial year and report to the Cabinet if appropriate.
5. Review the funding and investment strategy for the ensuing period, and consider vires of proposed actions.
6. Keep under review and make recommendations as to the Council's Approved Investment List including a regular review of the credit standings of the institutions included on the Approved Investment List.
7. Review performance of the Treasury Management function on a quarterly basis.
8. Ensure all persons engaged in Treasury Management receive appropriate training.
9. Ensure the organisation of the Treasury Management function is adequate to meet current requirements.
10. Ensure that there is adequate internal checking and division of duties within the section.
11. Ensure that all Treasury staff are aware and have access to the London Code of Conduct.
12. Advise the S151 Officer on Treasury Management matters.

TREASURY MANAGER

SENIOR ACCOUNTANT (Treasury Management)

Absence cover: Chief Accountant

1. Prepare and implement a Treasury Policy Statement. Oversee the implementation of a Treasury Systems Document.

2. Assess and appoint brokers, and monitor the performance of brokers employed.
3. Keep under review credit standings and make recommendations as to the Council's Investment List.
4. Review Treasury Systems Document (i.e. limits, risk spreading, data recording) at least annually.
5. Monitor and review any use made of Treasury Consultancy services and provide performance reports.
6. Receive reports from the Deals Officer on a daily basis on:
 - Transactions made.
 - Cash flow actuals and projections.
 - Level of debt/investments.
7. Preparation of the annual borrowing / investment plan and annual strategy.

Prepare mid-year reports on treasury management activity.
8. Prepare an annual report on the Treasury Management function by 30th September of the succeeding financial year.
9. Ensure that the systems and procedures laid down in the Treasury Systems Document are complied with, and that prescribed limits are not breached.
10. To be aware of the possibility of an attempt to involve the Council in a transaction involving the laundering of money.

DEALS OFFICER

ASSISTANT ACCOUNTANT

Absence Cover: Senior Accountant

1. Produce, implement and maintain a Treasury Systems Document.
2. Prepare Cash Flow projections.
3. Make daily decisions on funding, lending, acceptability of Treasury instruments, and consider vires of proposed action.
4. Dealing and initial recording of deal.
5. Transmission procedures.
5. Comply with the London Code of Conduct.
6. To be aware of the possibility of an attempt to involve the Council in a transaction involving the laundering of money.
8. Provide the Treasury Manager with a monthly report on:

- Transactions made.
- Cash flow actuals and projections.
- Levels of debt / investments.

SENIOR ACCOUNTANT (REVENUE)

1. Provide absence cover for Deals Officer or Treasury Manager (but not for both at the same time).
2. Receive and check confirmation of deals.
3. Reconciliation of cash book.

INTERNAL AUDIT

1. Review compliance with approved policy and procedures.
2. Review division of duties and operational practice.

PRUDENTIAL INDICATORS

1. BACKGROUND

- 1.1 Under the provisions of The Local Government Act 2003, local authorities are able to make their own decisions about how much they wish to borrow to pay for capital investment providing they assess the borrowing to be affordable, prudent and sustainable. In addition to complying with the Act they must comply with:
- (a) the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003; and
 - (b) the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities.(The Code)
- 1.2 The Code's objective is to ensure that when councils take decisions on capital investment proper consideration is given to the affordability of these plans in the light of the revenue budget position and future financial forecasts. To comply the Council must agree a number of targets and monitor performance against them. These targets are known as the "Prudential Indicators" and particular indicators will be used to separately assess the following areas:
- Management of capital expenditure
 - Affordability
 - Prudence
 - Management of external debt
 - Treasury Management
- 1.3 All of the above factors have been considered in the preparation of the revenue budget and an adequate provision has been made to support any potential borrowing required to fund the capital investment plans in 2013/14 and beyond. Additionally, the Council has built into its revenue budget, with effect from 2010/11, a contribution to the Capital Reserve so that resources are built up over a period of time to help with the funding of the capital expenditure. Furthermore, the Council's system of Business Case Appraisal provides a robust evaluation of investment proposals before they are formally approved to ensure that all other alternative options are considered.
- 1.4 The prudential indicators aim to support and record local decision making. They are not designed or intended to be measures of comparative performance between one local authority and another. The indicators for 2012/13 are shown below:

2. MANAGEMENT OF CAPITAL EXPENDITURE

- 2.1 In order to ensure that its capital investment plans are affordable the Council needs to be satisfied that it makes reasonable estimates of the level of capital expenditure to be incurred. The following indicator is an assessment of the forward capital programme.

Indicator 1	2012/13 Budget £000	2013/14 Planned £000	2014/15 Planned £000
Capital Investment	4,175	2,441	1,343
Less: Grant	<u>-3,456</u>	<u>-581</u>	<u>-406</u>
Net Cost	<u>719</u>	<u>1,860</u>	<u>937</u>
Financed By:			
Capital Receipts	128	134	0
Reserves	591	798	0
Borrowing	<u>0</u>	<u>928</u>	<u>937</u>
	<u>719</u>	<u>1,860</u>	<u>937</u>

2.2 The future development of the Council's Medium Term Financial Strategy later this year will include a review of capital investment requirements. This will need to take into account any new investment essential to deliver the Council's priorities. This and other issues may result in changes to the approved programme, and may also affect the indicators set out below. If they do, the position will need to be reconsidered by Cabinet and Council.

3. AFFORDABILITY

3.1 The fundamental objective in the consideration of affordability of the capital investment plans is to ensure that the proposed investment is sustainable throughout the period under review, which must cover at least three years from 2012/13 onwards. Indeed, the capital investment plans have been drafted through to and including 2015/16 for the purposes of strengthening the robustness and planning of the revenue budget. Affordability can be judged by the impact of the capital investment plans on the revenue budget and on Council Tax levels.

3.2 In considering the affordability of the plans it is necessary to consider all of the resources currently available, together with those estimated to be available during the programme period.

3.3 The net revenue stream within the following indicator comes directly from the Income & Expenditure Account of the Council and represents the amount to be met from Central Government and Local Taxpayers. The indicator, as prescribed, produces a negative figure for the Council because over the period under consideration investment income exceeds borrowing costs. In order to make the indicator more meaningful a second indicator has been produced which excludes the effect of investment income.

Estimate of ratio of financing costs to net revenue stream

Indicator 2	2012/13 Budget %	2013/14 Planned %	2014/15 Planned %
Estimate of ratio of Financing costs to net revenue stream (net of investment income)	-1.23	-0.93	-0.94
Estimate of ratio of Financing costs to net revenue stream (excluding investment income)	0.00	0.33	0.99

3.4 The costs of temporary borrowing are included within the figures below.

Estimate of Incremental Impact of Capital Investment Decisions on Council Tax

Indicator 3	2012/13 Budget	2013/14 Planned	2014/15 Planned
Estimate of the incremental impact of capital investment on Council Tax	£Nil	£41,700	£125,600
Expressed as a proportion of tax on Band D property	£Nil	£0.84	£2.52

3.5 The Council is required to determine a prudent Minimum Revenue Provision (MRP) for debt repayment which is the minimum amount which must be charged to the revenue account each year to meet credit liabilities (borrowing and leasing costs). Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements it is proposed that the MRP is determined by reference to the life of the asset. This will ensure that sufficient monies have been set aside to repay that debt when the asset reaches the end of its useful life and that the Council is not supporting debt repayments for assets that have reached the end of their economic life or have been disposed of.

4. PRUDENCE

4.1 The Council is required to use a prescribed formula to calculate a **Capital Financing Requirement**. This equates to the underlying need to borrow for a capital purpose. In accordance with best professional practice the Council does not associate borrowing with particular items or types of expenditure. At any given point in time there are a number of different cashflows, both capital and revenue which can be either positive or negative which make up the overall cashflow position of the Council. As a consequence external borrowing may arise because of the overall financial transactions of the Council and not merely capital expenditure.

4.2.1 The estimates below represent the underlying end of year capital financing requirement of the Council for future years. It takes account of both the borrowing requirement and the minimum revenue provision for debt repayment:

Indicator 4	2012/12 Budget £000	2013/14 Indicative £000	2014/15 Indicative £000
Capital Financing Requirement	0	891	1,755

5. MANAGEMENT OF EXTERNAL DEBT

- 5.1 It is recommended that the Council approve the following **Authorised Limits** for its total external debt gross of investments for the next three financial years. The limits proposed are consistent with current commitments, existing plans and the previously approved capital investment plans. In assessing these limits, risk analysis has been undertaken together with estimates of the overall cashflow requirements of the Council. The limits include both the amounts necessary to fund the Capital Financing Requirement and any temporary borrowing pending receipt of income such as council tax or business rate instalments.

Indicator 5	2012/13 Budget £000	2013/14 Indicative £000	2014/15 Indicative £000
Authorised Limit for External Debt	7,800	9,000	10,200

- 5.2 The Council is also required to specify an **Operational Boundary** for external debt which should be based on the most likely scenario, but not a worst case scenario as is the case with the Authorised Limit. It is recognised within the guidance that this limit may be breached occasionally due to variations in cashflow. However, a regular trend above this limit would not be acceptable and would lead to further investigation and further action as appropriate.

Indicator 6	2012/13 Budget £000	2013/14 Indicative £000	2014/15 Indicative £000
Operational Boundary	100	1,100	2,000

- 5.3 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Indicator 7 Gross and Net Debt	2012/13 Authorised £m	2013/14 Authorised £m	2014/15 Authorised £m
Outstanding Borrowing (at nominal value)	100	1,100	2,000
Other Long-term Liabilities (at nominal value)	0	0	0
Gross Debt	100	1,100	2,000
Less: Investments @ 31st March	10,000	10,000	10,000
Net Debt	-9,900	-8,900	-8,000

6. TREASURY MANAGEMENT

- 6.1 If the Council were to make the transition from being debt-free it would initially have a relatively small debt. As a consequence it is recommended that the Council sets an **Upper Limit on Fixed Interest Rate Exposures** for the coming 3 years which allows all debt to be at a fixed rate especially if long term rates are attractive.

Indicator 8	2012/13 Budget	2013/14 Indicative	2014/15 Indicative
Upper percentage limit on debt outstanding at fixed rates	100%	100%	100%

- 6.2 The Council is also required to set an **Upper Limit on Variable Interest Rate Exposures** and to retain flexibility it is considered prudent to set a limit which allows all of the Authorised Limit to be borrowed at a variable rate. Although it is likely that borrowings will be at fixed rates there is a danger that with such limited borrowings market conditions may not be attractive when borrowing is considered necessary and a short term variable rate may be the preferred option.

Indicator 9	2012/13 Budget	2013/14 Indicative	2014/15 Indicative
Upper percentage limit on debt outstanding at variable rates	100%	100%	100%

- 6.3 Any organisation undertaking borrowing needs to ensure that the **maturity structure of its borrowings** is both prudent and affordable. If the Council should begin to borrow in a limited way it is likely that 100% of its borrowings will mature in the periods specified below. As debt increases over the coming years the Council will need to have regard to the maturity profile of its borrowings.

Indicator 10		
Amount of projected borrowing at fixed interest rates maturing in each period as a percentage of total borrowing at fixed interest rates		
Maturity Profile	Lower Limit	Upper Limit
Under 12 months	0%	100%
Over 12 months and within 24 months	0%	100%
Over 24 months and within 5 years	0%	100%
Over 5 years and within 10 years	0%	100%
10 years and above	0%	100%

- 6.4 For many years the Council benefited enormously by taking a long term view on interest rates and **invested sums for periods longer than 364 days** which has subsequently proven to be a sound judgement in the overall management of the Council's finances. Where appropriate the Council may wish to continue investing sums beyond one year but as the sums available for investment reduce, opportunities will become less and less.

Indicator 11	2012/13 Budget £000	2013/14 Indicative £000	2014/15 Indicative £000
Total principal sums invested for periods longer than 364 days	5,000	5,000	5,000

- 6.5 **Indicator 12** relates to the indebtedness of the Housing Revenue Account and is not applicable to the Council following the transfer of its housing stock and subsequent closure of the Housing Revenue Account.