

Treasury Management Practices

2011 / 12

Contents

| | | Page |
|---------------|---|-------------|
| TMP 1 | Treasury risk management |3 |
| TMP 2 | Performance measurement |16 |
| TMP 3 | Decision-making and analysis |18 |
| TMP 4 | Approved instruments, methods and techniques |20 |
| TMP 5 | Organisation, clarity and segregation of responsibilities, and dealing arrangements |22 |
| TMP 6 | Reporting requirements and management information arrangements |26 |
| TMP 7 | Budgeting, accounting and audit arrangements |29 |
| TMP 8 | Cash and cash flow management |30 |
| TMP 9 | Money laundering |31 |
| TMP 10 | Training and qualifications |33 |
| TMP 11 | Use of external service providers |34 |
| TMP 12 | Corporate governance |36 |

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 2 |

TMP 1 RISK MANAGEMENT

The responsible officer (in the case of Rossendale Borough Council The Head of Finance and Property Services) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1. Policy on the use of credit risk analysis techniques

- 1.1.1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- 1.1.2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
- 1.1.3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
- 1.1.4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. This organisation will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -
 - Purple 2 years
 - Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
 - Orange 1 year
 - Red 6 months
 - Green 3 months
 - No Colour not to be used

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 3 |

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector “Guide to Establishing Credit Policies April 2009” for a full explanation.

1.1.5. Credit ratings for individual counterparties can change at any time. The Head of Finance is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

1.1.6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

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

1.1.7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows:

Maturities up to maximum of 1 year

(All such investments will be sterling denominated, meeting the minimum ‘high’ rating criteria where applicable)

| | Minimum ‘High’ Credit Criteria | Use |
|---|--|----------------------------|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term deposits – local authorities | -- | In-house |
| Term deposits – banks and building societies ** | Short-term, Long-term, Individual, Support | In-house and Fund Managers |

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 4 |

| | Minimum Credit Criteria | Use | Max % of total investments | Max. maturity period |
|---|--|----------------------------|----------------------------|----------------------|
| UK nationalised banks | | In-house and Fund Managers | 100% | 2yrs |
| Banks nationalised by high credit rated (sovereign rating) countries* | Short-term, Long-term, Individual, Support | In-house and Fund Managers | 0% | n/a |
| Government guarantee on ALL deposits by high credit rated (sovereign rating) countries* | Sovereign rating | In-house and Fund Managers | 0% | n/a |
| UK Government support to the banking sector** | Sovereign rating | In-house and Fund Managers | 100% | 2 yrs |

* eg. Ireland (A+), Australia (AA+), Singapore (AAA), Hong Kong (AA)

**Banks eligible for support under the UK bail-out package: -

| | |
|------------|-----------------------------|
| Abbey | HSBC |
| Barclays | Nationwide Building Society |
| HBOS | RBS |
| Lloyds TSB | Standard Chartered |

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

| | |
|-----------------------------|-------------------------------------|
| Bank of Scotland | Rothschild Continuation Finance plc |
| Barclays | Standard Life Bank |
| Clydesdale | Tesco Personal Finance plc |
| Coventry Building Society | Royal Bank of Scotland |
| Investec bank | West Bromwich Building Society |
| Nationwide Building Society | Yorkshire Building Society |

| | Minimum 'High' Credit Criteria | Use |
|--|--|---|
| Certificates of deposits issued by banks and building societies covered by UK Government guarantee | Short-term, Long-term, Individual, Support | In-house buy and hold and Fund Managers |
| Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee | Short-term, Long-term, Individual, Support | In-house buy and hold and Fund Managers |
| UK Government Gilts | Long term AAA | In-house buy and hold and Fund Managers |
| Bonds issued by multilateral development banks | Long term AAA | In-house buy and hold and Fund Managers |

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 5 |

| | | |
|--|---|---|
| Bonds issued by a financial institution which is guaranteed by the UK government | UK sovereign rating | In-house buy and hold and Fund Managers |
| Sovereign bond issues (i.e. other than the UK govt) | AAA (or state your criteria if different) | In-house buy and hold and Fund Managers |
| Treasury Bills | -- | Fund Managers |

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 6 |

Maturities in excess of 1 year

| | Minimum 'High' Credit Criteria | Use |
|--|--|----------------------------|
| Term deposits – local authorities | Short-term, Long-term, Individual, Support | In-house |
| Term deposits – banks and building societies | Short-term, Long-term, Individual, Support | In-house |
| Certificates of deposits issued by banks and building societies | Short-term, Long-term, Individual, Support | In house and Fund Managers |
| UK Government Gilts | AAA | In-house and Fund Managers |
| Bonds issued by multilateral development banks | AAA | In-house and Fund Managers |
| Bonds issued by a financial institution which is guaranteed by the UK government | AAA | In-house and Fund Managers |
| Sovereign bond issues (i.e. other than the UK govt) | AAA (or state your criteria if different) | In-house and Fund Managers |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) | | |
| 1. Bond Funds | Long-term __volatility rating | In-house and Fund Managers |
| 2. Gilt Funds | Long-term __volatility rating | In-house and Fund Managers |

1.1.8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £5m or 50%, whichever is greater.
- Group limits where a number of institutions are under one ownership – maximum of £10m
- Country limits – a minimum sovereign rating of AAA is required for an institution to be placed on our approved lending list.

1.1.9. Investments will not be made with counterparties that do not have a credit rating in their own right

1.1.10. The definition of 'high credit quality' ** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail minimum procedural formalities in terms of the placing of those investments by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 7 |

1.2 Liquidity Risk Management

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

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

- a. Standby facilities
At the end of each financial day any unexpected surplus funds are transferred to the SIBA account which is available from the Council's main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.
- b. Bank overdraft arrangements
Previous overdraft facilities have now ceased due to the bank imposing an arrangement fee.
- c. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £8.5m.
- d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest Rate Risk Management

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

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 8 |

costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Policies concerning the use of instruments for interest rate management.

- a. forward dealing
Consideration will be given to dealing from forward periods dependant upon market conditions.
- b. callable deposits (England and Wales only)
The Council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.
- c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs are/ considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by Head of Finance

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Refinancing Risk Management

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

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

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

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 9 |

monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Cabinet at the meeting immediately following its action

1.5.2. Projected Capital Investment Requirements

The responsible officer will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

England and Wales

Under the new capital financing system, the definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice (SORP).

1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

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

(Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Council will use the definitions provided in the Prudential Code for borrowing (64), capital expenditure (65), capital financing requirement (67), debt (67), financing costs (68), investments (69), net borrowing (70), net revenue stream (71), other long term liabilities (72).

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 10 |

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

1.6.1. References to Relevant Statutes and Regulations

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

English Authorities: -

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

- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA (housing authorities) – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)

- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2009,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2009
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 11 |

- CIPFA Standard of Professional Practice on Continuous professional Development 2005
 - CIPFA Standard of Professional Practice on Ethics 2006
 - The Good Governance Standard for Public Services 2004
 - LAAP Bulletins
 - CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (which replaced the SORP in April 2010)
-
- PWLB circulars on Lending Policy
 - The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
 - Financial Services Authority's Code of Market Conduct
-
- The Council's Standing Orders relating to Contracts
 - The Council's Financial Regulations
 - The Council's Scheme of Delegated Functions

1.6.3 Procedures for Evidencing the Council's Powers/Authorities to Counterparties

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

England and Wales

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.4 Statement on the Council's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Chief Executive Officer and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Director of Business; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Head of Finance and Property Services: the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 12 |

1.7 Fraud, Error and Corruption, and Contingency Management

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

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

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

Procedures

- Electronic banking procedures
- CHAPS payments.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained by the Exchequer Manager
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Head of Finance for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Head of Finance for resolution.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 13 |

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- A debt charge/investment income listing is produced every month when a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Exchequer Manager. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledger. These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund.

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

All members of the treasury management team are familiar with this plan and new members will be briefed on it. The plan is reviewed and updated at regular intervals

All computer files are backed up on the server to enable files to be accessed from remote sites.

1.7.3. Insurance Cover Details

Fidelity Insurance

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. This cover is limited to £5.5m for any one event with an excess of £1k for any one event

Professional Indemnity Insurance

The Council also has a 'Officials Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5m for any one event with an excess of £nil for any one event.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 14 |

1.8 Market Risk Management

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

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

1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)

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

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 15 |

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

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

- a. monthly reviews carried out by the Head of Finance and Finance Manager, reported as part of the monthly financial monitoring reports to Cabinet.
- b. monthly review reports from our treasury management consultants detailing current markets, forecasts and model portfolio returns
- c. annual review of performance and strategy with our treasury management consultants
- d. comparative reviews

2.1.2 Reviews with our treasury management consultants

The Head of Finance meets with our consultants every 12 months to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

In addition to the monthly financial monitoring reports to Cabinet, the end of March out-turn report includes an annual treasury management report which reviews the performance of the debt and investment portfolios. This report contains the following:

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. comparison of return on investments to the investment benchmark
- h. compliance with Prudential and Treasury Indicators
- i. other

2.1.4 Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- SECTOR model portfolios
- Average market rates

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 16 |

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
- b. SECTOR model portfolio

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on an annual basis The process for warding contracts will be in line with the Council's Contract Standing Orders.

2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.3.3 Money-broking services

The Council may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

2.3.4 Consultants'/advisers' services

This Council's policy is not to appoint full-time professional treasury management consultants (SECTOR advise on an ad hoc basis, alongside automated updates)

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 17 |

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The following records will be retained:-

- Daily and monthly cash balance forecasts
- Money market rates obtained by telephone and e-mail from brokers or direct
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager(s)
- Fund manager(s) valuation statements (if applicable)

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring (if applicable)
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actual against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

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

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

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 18 |

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

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding. .

3.1.3.3 In respect of investment decisions, the Council will:

- a) consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 19 |

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy (updated February 2011).

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

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

| On Balance Sheet | Fixed | Variable |
|--|-------|----------|
| PWLB | ● | ● |
| Market (long-term) | ● | ● |
| Market (temporary) | ● | ● |
| Market (LOBOs) | ● | ● |
| Local temporary | ● | ● |
| Local Bonds | ● | |
| Overdraft | | ● |
| Internal (capital receipts & revenue balances) | ● | ● |
| Leasing (not operating leases) | ● | ● |
| Deferred Purchase | ● | ● |

Other Methods of Financing

- Government and EC Capital Grants
- Lottery monies
- PFI/PPP
- Operating leases

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 20 |

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Treasury Management Strategy Statement sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 21 |

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- Budget approval

(ii) Full Council, Cabinet,

- recommendation of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and recommendations
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Accounts Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

| | |
|-------------------------------|---|
| Dealing | Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation |
| Accounting Entry | Production of transfer note. Processing of accounting entry |
| Authorisation/Payment of Deal | Entry onto system. Approval and payment. |

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 22 |

5.3 Treasury Management Organisation Chart

Head of Financial
Services

|

Finance Manager

|

Exchequer
Manager

5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Head of Finance (This post is also the S151 officer.) This officer will carry out the following duties: -

- a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) submitting regular treasury management policy reports
- c) submitting budgets and budget variations
- d) receiving and reviewing management information reports
- e) reviewing the performance of the treasury management function
- f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) ensuring the adequacy of internal audit, and liaising with external audit
- h) recommending the appointment of external service providers.
- i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Officer Treasury Management Team or the Accountancy Assistants Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 23 |

appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Exchequer Manager

The responsibilities of this post will be: -

- a) execution of transactions
- b) adherence to agreed policies and practices on a day-to-day basis
- c) maintaining relationships with counterparties and external service providers
- d) supervising treasury management staff
- e) monitoring performance on a day-to-day basis
- f) submitting management information reports to the responsible officer
- g) identifying and recommending
- h) opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the responsible officer reports regularly to full Council and Cabinet on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

- a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the responsible officer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

The Finance Manager is also the deputy S151 Officer.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 24 |

5.6 Dealing Limits

The following posts are authorised to deal:

- The Head of Financial Services

5.7 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers.

5.8 Policy on Taping of Conversations

It is not this Council's policy to tape brokers conversations.

5.9 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged by this method. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.10 Settlement Transmission Procedures

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For payments a transfer will be made through the BACs or CHAPs to be completed by the appropriate bank deadlines in place that day.

5.11 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.12 Arrangements Concerning the Management of Third-Party Funds.

During 2010/11 the Council transferred the funds it held on behalf of a number of trust funds to the Community Foundation for Lancashire. The cash in respect of these funds is now held and administered by the Community Foundation for Lancashire.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 25 |

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

- a) Annual reporting requirements before the start of the year: -
 - a. review of the organisation's approved clauses, treasury management policy statement and practices
 - b. strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Regular review by Cabinet within the Financial Monitoring Reports
- c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
 - a) Prudential and Treasury Indicators
 - b) current Treasury portfolio position
 - c) borrowing requirement
 - d) prospects for interest rates
 - e) borrowing strategy
 - f) policy on borrowing in advance of need
 - g) debt rescheduling
 - h) investment strategy
 - i) creditworthiness policy
 - j) policy on the use of external service providers
 - k) any extraordinary treasury issue
 - l) the MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 26 |

6.3 The Annual Investment Strategy Statement

Included within the Treasury Management Strategy Statement is the report on the Annual Investment Strategy which sets out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both (if applicable)
- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

6.6 Regular and midyear review

The Council will review its treasury management activities and strategy on at least a six monthly basis, though in practice as part of regular financial monitoring to Cabinet. This review will consider the following:

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 27 |

6.7 Annual Review Report on Treasury Management Activity

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

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

6.8 Management Information Reports

Management information reports will be prepared for each Cabinet meeting. These reports will contain the following information: -

- a) a summary of transactions executed (may want to add brokers used and fees paid) and their revenue (current effects);
- b) measurements of performance including effect on loan charges/investment income;
- c) degree of compliance with original strategy and explanation of variances.
- d) any non compliance with Prudential limits or other treasury management limits.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 28 |

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Accounting Practices and Standards

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

7.3 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Head of Finance will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Head of Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the <<system >>
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values (if applicable)

7.5 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for Members, Cabinet and Managers. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 29 |

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared according to known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A formal bank reconciliation is undertaken on a monthly basis by the Finance Department

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay all creditors as per the agreed terms of trading. We seek to achieve a 97.5% success rate with regard to paying creditors.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Exchequer Manager is responsible for monitoring the levels of debtors and creditors.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the Exchequer Department to deposit in the Council's banking accounts. Cash and cheques banked the previous day will be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Head of Finance.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 30 |

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

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

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 31 |

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is Head of Finance
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is The Head of Legal and Democratic Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

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

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk.

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

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 32 |

TMP 10 Training and Qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Head of Finance to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The People and Policy department will maintain records on all staff and the training they receive.

10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

10.4 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom – the CODE (which replaced the SORP in April 2010)

1. Where the Chief Financial Officer is a member of ICAEW, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. All staff involved in treasury management activities must also comply with the CODE.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 33 |

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

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

11.1.1 Banking Services

- a) Name of supplier of service is the NatWest Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is:
PO Box 81
36 Hamilton Square
Birkenhead
Merseyside
CH41 5LG Tel :- 0151 802 9354
- d) Contract commenced 1992.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments due monthly and quarterly

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 34 |

11.1.2 Money-Broking Services

The Council may use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed annually by the Head of Finance to check whether performance has met expectations.

- a) Name of supplier of service is Sector Treasury Services Limited. Their address is 17 Rochester Row, London SW1P 1QT (Tel: 0871 664 6800)
- b) Regulatory status: investment adviser authorised by the FSA
- c) Contract commenced during the 1990s and runs on an annual basis.
- d) Cost of service in 2010/11 was £6,250.
- e) Payments due bi-annually in February and August.

11.2 Procedures and Frequency for Tendering Services

As per the Council's contract procedure rules

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 35 |

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -
 - Treasury Management Strategy Statement
 - including the Annual Investment Strategy
 - Treasury Management Policy Statement
 - Minimum Revenue provision policy statement
 - Treasury Management monitoring reports produced as part of the Council's regular financial monitoring reports to Cabinet.
 - Annual statement of accounts
 - Annual budget (both revenue and capital)
 - 3 Year Capital Plan
 - Minutes of Council / Cabinet / committee meetings
 - Third party expenditure via monthly corporate spend analysis published on the website to comply with the coalition government's transparency agenda.

| | | | |
|---------------------------------|-----------------|-----------------------|------------|
| Responsible Section/Team | Finance | Version/Status | 2011/12 v1 |
| Responsible Author | Head of Finance | Date Agreed | TBC |
| Date last Amended | Feb 2011 | Agreed at | TBC |
| Due for Review | Feb 2012 | Page | 36 |