

CALDERDALE MBC

WARDS AFFECTED ALL

CABINET

1 FEBRUARY 2010

TREASURY MANAGEMENT – ANNUAL STRATEGY REPORT 2010/2011

REPORT OF THE HEAD OF FINANCE

1. ISSUE

- 1.1 To approve a Treasury Management Strategy and Policy for 2010/2011.

2. NEED FOR A DECISION

- 2.1 This report is submitted annually to gain Members' approval of the Treasury Management Strategy and Policy and inform Members of possible movements in short term and long term interest rates.
- 2.2 Cabinet is responsible for ensuring the implementation of the Treasury Management Policy but full Council is responsible for the setting of and changes to it.

3. RECOMMENDATION

- 3.1 That it be recommended to Council that the strategy proposed in this report and the amendments to the attached Treasury Management Policy are approved.
- 3.2 That the 4 clauses contained in section 5 of the report replace those currently contained within Financial Procedures Rule 5 (Treasury Management) in the Council's Constitution.

4. TREASURY MANAGEMENT – ANNUAL STRATEGY REPORT 2010/11

BACKGROUND

- 4.1 On the 1 April 2002, the CIPFA code of practice for Treasury Management in the public sector came into being. The Treasury Management Policy statement prepared by the Head of Finance was revised to reflect this new CIPFA code of practice. This was approved by Cabinet on the 3 April 2002 and subsequently adopted by Council.
- 4.2 In 2009 the Treasury management code has been revised as Local Authority investments have been placed under the national spotlight following the collapse of the Icelandic banks. Both the Audit Commission and the Communities and Local Government Select Committee published reports which made a number of recommendations which CIPFA have taken into account in this revision.

5 CHANGES TO THE COUNCIL'S CONSTITUTION

- 5.1 The Council has previously adopted four clauses into its Constitution as recommended under CIPFA's Code of Practice on Treasury Management. These clauses have been updated as part of CIPFA's review of the code so the following 4 clauses need to replace those currently contained within Financial Procedure Rule 5 (Treasury Management):-

- 1 The Council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
 - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

- 2 Cabinet/Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 3 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury

management decisions to the Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

- 4 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6. CHANGES TO THE CURRENT TREASURY MANAGEMENT POLICY

- 6.1 The majority of the Treasury Management Policy is the same as contained within last year's report to Cabinet on the 2 February 2009. The policy is assessed each year to ensure it complies with current legislation and that it maximises the financial benefits of the Council's borrowing and investing activities at the lowest possible risk.
- 6.2 The suggested changes to this year's policy are mainly due to the publication of the new CIPFA Code of Practice in the public services following last year's problems in the Banking sector and the continued loss of counterparties due to downgrading by our ratings agencies.
- 6.3 Since last years report to Members on the 2 February 2009, a second rating agency called Moodys has been introduced to strengthen our policy. As a consequence of this our cash deposit investment limits criteria have changed and we are now using both Fitch and Moodys ratings and only taking the lower of the two ratings for the majority of our counterparties (see 6.4 below).
- 6.4 Previously, the Council could invest with unspecified counterparties i.e. not rated by a ratings agency. We are proposing not to invest with any unspecified counterparties which means that all our investments will be rated by at least one of the two ratings agencies we now use. If they are only rated by one of the ratings agencies then they would have to be rated at least F1 by Fitch or P-1 by Moodys and they will only attract the lowest level of investment at £2 million. (In reality all of the counterparties we currently use are rated by both ratings agencies).
- 6.5 When referring to ratings it should be remembered that investments are made based on an organisation's rating at the time of investment. However, Banks or Building Societies can be downgraded by the ratings agencies whilst we are holding the investment prior to it being repaid to the Council. This risk is mitigated by only dealing with the very highest rated Banks or Building Societies. Although the downgrading of a counterparty might only be to the next level down (which still might be a high rating) if it is not as high as the Council demands no further investments will be made with that counterparty until such time as its rating is revised back upwards to meet the Council's policy.
- 6.6 Due to the loss of counterparties and the new CIPFA Code of Practice we have also revised our lending limits to our remaining counterparties and to reflect the new code we have also introduced group limits and

Country limits. All counterparties will be domiciled in the Eurozone and their country's sovereign rating must be the maximum AAA as assessed by both Fitch and Moodys.

6.7 As a consequence of the above it is proposed to put in place the following cash deposit investment limits and criteria:-

a) MAXIMUM £20 MILLION

Specifically any of the four big clearing banks (HSBC, Royal Bank of Scotland, Barclays and Lloyds) with a short term rating of F1+ by Fitch and P-1 by Moodys combined with gross assets over £400 billion along with other Local Authorities.

b) MAXIMUM £10 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with the maximum short term ratings of F1+ from Fitch and P-1 from Moodys combined with gross assets over £100 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £100 billion combined with the maximum short term ratings of F1+ from Fitch and P-1 from Moodys.

c) MAXIMUM £6 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F1 from Fitch and P-1 from Moodys combined with gross assets over £30 billion but less than £100 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £30 billion but less than £100 billion combined with at least short term ratings of F1 From Fitch and P-1 from Moodys.

d) MAXIMUM £4 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F1 from Fitch and P-2 from Moodys combined with gross assets over £1 billion but less than £30 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £1 billion but less than £30 billion combined with at least short term ratings of F1 from Fitch and P-2 from Moodys.

e) MAXIMUM £2 MILLION

- (i) Any other institution authorised under the Banking Act 1987 which are only short term rated by one of our ratings agencies should be at least F1 by Fitch or P-1 by Moodys combined with gross assets over £1 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) which are only short term rated by one of our ratings agencies should be at least F1 by Fitch or P-1 by Moodys combined with gross assets over £1 billion.

Country Limits (Other than the United Kingdom)

MAXIMUM £10 MILLION

Any country within the Eurozone that is rated AAA by Fitch and Aaa by Moodys. Any bank that qualifies would still have to comply with the external specified policy above.

Group Limits

Any Bank or Building Society that we deal with which are owned by one of our other Counterparties will be subject to a group limit which is set at the highest limit attained by either Bank or Building Society. This means that if the parent company qualifies for a limit of £20 million and its subsidiary qualifies for a limit of £6 million then the limit for the two organisations together would be set at £20 million.

- 6.8 The proposed changes to our lending limits criteria will help to replace the loss of counterparties due to being downgraded or would previously have qualified as an unspecified counterparty. These changes recognise that investing with the very safest banks or building societies carries the lowest level of risk.
- 6.9 These increases are in line with other Local Authorities based on information gathered from the CIPFA benchmarking club and other Local Authority's reports which are published on the internet.
- 6.10 We are also required under the new code to set certain prudential limits that were previously part of the Prudential Report to Members these are as follows:-
 - (i) Fixed and Variable interest rate exposure
We are recommending that we set an upper limit on our fixed rate exposure for 2010/11 of 115% and an upper limit on our variable rate exposure for 2010/11 of 15%. This is in line with previous practice.
 - (ii) Maturity structure of borrowings
We are also required to set upper and lower limits for the maturity structure of our borrowings so that when taking long

term borrowing decisions the Council will consider the repayment date of new and existing loans.

Period	Lower Limit	Upper Limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	60%	100%

- (iii) External investments for a period longer than 364 days
 If we intend to invest for periods longer than 364 days we are required to set a limit for each year. Due to the current economic climate there are no plans to invest longer than 364 days. If this situation changes then a further report will be brought back before Members.

- 6.11 There has additionally been a change in the reporting arrangements in the policy to reflect the new CIPFA Code in that the annual strategy and policy report, the annual report and the interim 6 monthly report will all be taken to Cabinet and then on to full Council. Audit committee will in future be scrutinising the strategy and policy to ensure compliance and effective development.
- 6.12 The final change is that CIPFA recommends that a Member is charged with ultimate responsibility for Treasury management and that the said Member will have access to training to meet those responsibilities. Audit Committee will be considering the options available and will subsequently be putting forward their recommendations to Cabinet in due course.
- 6.13 It is hoped that the changes proposed above will make the scrutiny and control of the Treasury Management function more accountable and robust at the same time providing flexibility when borrowing or investing.

7. TREASURY MANAGEMENT STRATEGY FOR 2010/11

7.1 Interest Rates and the Economy

- 7.1.1 The Bank of England base rate started the 2009/10 financial year at 0.5% and it has remained at this low level right up to the date of this report and it is not expected to move significantly for the foreseeable future so we expect this low level to continue for some time to come even for most of the 2010/11 financial year.
- 7.1.2 The main reason for the Bank of England keeping the base rate at record lows is to try to keep CPI inflation on track to meet the 2% inflation target over the medium term and also to try to stimulate the economy. Inflation currently stands at 1.5%.

- 7.1.3 Combined with dropping the base rate to record lows, the Bank of England has also started a programme of Quantitative Easing which is a way of injecting money directly into the economy. It does this by purchasing assets such as Government and corporate bonds from banks. The idea is that banks will lend this extra money to business and private individuals who in turn will then spend more money in the economy.
- 7.1.4 The Bank of England's Monetary Policy Committee on balance believes that the prospect is for a slow recovery in the level of economic activity but a number of indicators of spending and confidence suggest that a pick-up in economic activity may soon be evident.
- 7.1.5 The effect of the above combined with the recession is that the level of investment interest that is generated from our balances will be reduced. If these low levels continue for some time there may be pressure on the Treasury Management budget.
- 7.1.6 Long term borrowing is carried out through the Public Works Loan Board (PWLB) and their interest rates have remained historically low in the current year. The benchmark period that we compare against is 24.5 to 25 years (being mid-way between the shortest and longest borrowing periods available to the Council). At the start of the financial year 2009/10, the 24.5-25 year rate was 4.28% it reached a peak of 4.78% in June but has steadily fallen back to 4.39% in December 09. The PWLB rates are expected to remain at this low level for the remainder of 2009/10 and then to increase gradually during 2010/11.

7.2 Basic Strategy

- 7.2.1 The overall strategy is to adhere to the Treasury Management Policy (appended to this report as Appendix 1) and to the Prudential Indicators Report (also included on this agenda). Any borrowings or investments carried out will be within the limits as set out in that report.
- 7.2.2 At present long term borrowing is only carried out through the PWLB where we can borrow for any period from 1 year to 50 years. We are currently in the unusual situation of PWLB rates being higher than short term (up to one year) money market rates so at present it is cheaper to borrow for short periods than to borrow long term. This situation will eventually reverse itself when the base rate starts to rise from its current historical low of 0.5%.
- 7.2.3 It should also be pointed out that as PWLB rates are at this low level any long term borrowing carried out would be at levels which are less than the current average 5.4% that we are

receiving from the Government via the Revenue support grant for our supported borrowing.

- 7.2.4 So the strategy will be to manage borrowings in the short term but this will have to be carefully weighed up against the volatility of short term rates and the longer term financial benefits of locking into historically low long term fixed interest rates.
- 7.2.5 It is therefore proposed to keep a watching brief on borrowing requirements and interest rate movements to manage the Council's borrowing and adapt the strategy to meet changing economic circumstances.
- 7.2.6 In the absence of clear evidence to support assumptions of movements in interest rates the strategy will be to spread any long term borrowings over the year. This will reflect capital expenditure, which should be incurred gradually as the year progresses. The strategy will minimise the risk of exposure to sudden fluctuations in interest rates.
- 7.2.7 It is good practice for Authorities to have smooth debt maturity profiles in order to reduce their exposure to a substantial borrowing requirement in a particular period in the future when interest rates might be high. So, if any long term borrowing is undertaken in 2010/11 steps will be taken to smooth it out even further.
- 7.2.8 For information, the Authority's predicted debt profile can be found in Appendix 2, (n.b. this shows only those years in which the debt will mature). There are gaps between the years in the very long term as it is only recently that the PWLB have offered rates from 30 to 50 years so there will be opportunities to fill these gaps when borrowing in future years.
- 7.2.9 The movement on interest rates in the long term will be affected by a number of factors. The main ones include investor demand for Government Bonds and the longer term outlook for both inflation and pound sterling.
- 7.2.10 When the Government wishes to borrow money it issues bonds. Investors (mainly pension funds) buy these bonds for which they will receive annual interest. Their initial investment is then repaid to them after the agreed life of the bond.
- 7.2.11 As Government bonds are traded on the open market their price goes up if investors buy them. As they cost more to buy the interest rate they provide on that investment effectively goes down. As the rate paid by bonds determines the rates at which the Council can borrow through PWLB, heavy demand for them (especially from pension funds or the Bank of England) keeps the cost of borrowing for Local Authorities down.

7.2.12 The danger is that pension funds could decide to reduce their purchases of bonds or re-allocate part of their portfolios into alternative investments or the Bank of England could reduce its Quantitative easing programme. This in turn would have the effect of raising the rates at which the Council could borrow.

7.2.13 The effect and timing of the above are sufficiently uncertain to make it impossible to reliably predict the movement in interest rates but as mentioned in 7.2.5 above a watch will be kept on movement in inflation and bond prices to manage the Council's borrowing and investment requirements.

8. CONSULTATION

8.1 No direct consultation however information was collected from financial brokers and institutions.

9. FINANCIAL IMPLICATIONS

9.1 The implications are contained within the report and are reflected in the 2010/11 revenue budget.

10. CORPORATE IMPLICATIONS

10.1 None arising out of this report.

11. CONCLUSIONS

11.1 It is felt that the basic strategy detailed above will minimise both short term and long term interest costs to the Council. This will be achieved by responding to movements in the economy and interest rates when they occur.

11.2 The changes to the Treasury management policy will give us more scope and options when placing investments on days of high liquidity and help to replace the loss of counterparties. They will also highlight the low risk that the very top banks provide.

11.3 All the changes to the CIPFA code of practice have been incorporated in the Council's policy.

Reference: ACC/DH

Pete Smith

Report No: 45dh

Head of Finance

Date: 17 January 2010

Calderdale MBC

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DOCUMENTS USED IN THE PREPARATION OF THIS REPORT:

Capital Monitoring Report & CIPFA's Code of Practice on Treasury Management.

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT:

Princess Buildings, Princess Street, Halifax, HX1 1TP

TREASURY MANAGEMENT POLICY

Treasury Management Policy Statement

1. The Authority defines its Treasury Management activities as:-
The Management of the Local Authority'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.
2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Authority.
3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

TMP 1 Risk Management

The new CIPFA code of practice identifies eight Treasury Management risks which are:-

A. Credit and counterparty risk

There is a risk of failure by a third party to meet its contractual obligations to the Authority. Excepting the Bank of England and the UK Government (which includes the Governments Debt management office for whom we do not set a limit) we minimise this risk by having prudential limits for investments to the following approved organisations.

When referring to ratings it should be remembered that investments are made based on an organisation's rating at the time of investment. However, Banks or Building Societies can be downgraded by the ratings agencies whilst we are holding the investment prior to it being repaid to the Council. This risk is mitigated by only dealing with the very highest rated Banks or Building Societies. Although the downgrading of a counterparty might only be to the next level down (which still might be a high rating) if it is not as high as the Council demands no further investments will be made to that counterparty until such time as its rating is revised back upwards to meet the Council's policy.

External specified investments are to be limited for a period of up to 1 year as follows:

a) MAXIMUM £20 MILLION

Specifically any of the four big clearing banks (HSBC, Royal Bank of Scotland, Barclays and Lloyds) with a short term rating of F1+ by Fitch and P-1 by Moodys combined with assets over £400 billion along with other Local Authorities.

b) MAXIMUM £10 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with the maximum short term ratings of F1+ from Fitch and P-1 from Moodys combined with the maximum ratings of F1+ from Fitch and P-1 from Moodys combined with assets over £100 billion
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £100 billion combined with the maximum short term ratings of F1+ from Fitch and P-1 from Moodys.

c) MAXIMUM £6 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F1 from Fitch and P-1 from Moodys combined with assets over £30 billion but less than £100 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £30 billion but less than £100 billion combined with at least short term ratings of F1 from Fitch an P-1 from Moodys.

d) MAXIMUM £4 MILLION

- (i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F1 from Fitch and P-2 from Moodys combined with assets over £1 billion but less than £30 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £1 billion but less than £30 billion combined with at least short term ratings of F1 from Fitch and P-2 from Moodys.

e) MAXIMUM £2 MILLION

- (i) Any other institution authorised under the Banking Act 1987 which are only rated by one of our ratings agencies should be at least short term rated F1 by Fitch or P-1 by Moodys combined with assets over £1 billion.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986) which are only rated by one of our ratings agencies

should be at least short term rated F1 by Fitch or P-1 by Moodys combined with assets over £1 billion.

The Authority currently uses Fitch and Moodys which are recognised as “relevant rating agencies” by the securities and futures authority and are two of the three major international rating agencies and we refer to their websites every time we carry out an investment. The short term ratings of both companies which apply to our policy are summarised below:

	MINIMUM	MINIMUM		
	FITCH	MOODY'S		
Limits	Short term	Short term	Assets over	Audit Commission Grading
Maximum £20 million	F1+	P-1	£400 billion	Extremely strong grade
Maximum £10 million	F1+	P-1	£100 billion	Very strong grade
Maximum £6 million	F1	P-1	£30 billion	Strong grade
Maximum £4 million	F1	P-2	£1 billion	Strong grade
Maximum £2 million	Either F1	Or P-1	£1 billion	Strong grade

NOTES TO THE ABOVE

- (i) We will use the lowest of the two companies' ratings to determine which band a Bank or Building Society will fall into for instance if a Bank is rated F1+ by Fitch and only P-2 by Moodys and have assets over £200 billion they will only qualify for a limit of £4 million
- (ii) . If only one of the agencies actually rates a certain Bank or Building Society then that single rating will have to be at least F1 by Fitch or P-1 by Moodys.

Country Limits

MAXIMUM £10 MILLION

Any country within the Eurozone that is rated AAA by Fitch and Aaa by Moodys. Any bank that qualifies would still have to comply with the external specified policy above. NB No overall limit has been set for the United Kingdom

Group Limits

Any Bank or Building Society that we deal with which are owned by another one of our Counterparties will be subject to a group limit which is set at the highest limit attained by the parent Bank or Building Society.

This means that if the parent company qualifies for a limit of say £20 million and its subsidiary qualifies for a limit of £6 million then the limit for the two organisations together would be set at £20 million.

Other external investments for a period of up to 1 year as follows:

- (i) Gilt-edged Securities.
- (ii) Securities admitted to the official list of the stock exchange and in respect of which, all repayments of principal and interest are guaranteed by Her Majesty's Government.

External investments for a period longer than 364 days

Due to the current uncertain economic climate there are no plans in 2010/11 to invest for periods longer than 364 days. If this situation changes a further report will be brought back to Members to set appropriate limits. Also any decision to invest for periods exceeding 364 days would be made by the Head of Finance personally.

External borrowings of periods up to 1 year

The short term external borrowings which the Authority will incur will only be entered into with the following:

- (i) The Bank of England or any other institution authorised under the Banking Act 1987.
- (ii) Building Societies (within the meaning of the Building Societies Act 1986).
- (iii) Persons or bodies listed in part II of schedule to the Local Authorities (Capital Finance approved investments) regulations 1990. These bodies are Local or Public Authorities and Public Corporations.

B Liquidity risk

The Authority will have an effective cash flow forecasting and monitoring system which will identify the extent to which the authority is exposed to the effects of potential cash flow variations and shortfalls. Also the authority has access to the money markets and an overdraft facility with our bankers sufficient to meet most circumstances.

C Interest rate risk

The Authority will obtain reliable and informed information and advice from brokers, the media and the internet on the likely future courses of interest rates, to enable us to assess the extent to which movements may impact on the authority and to permit the effective management and control of its exposures to the same. The Authority is required to set fixed and variable

interest rate exposure limit indicators on its borrowings and investment principal sums outstanding which for 2010/11 are recommended as follows:

1 Fixed rate exposure

- (i) For Authorities that have no investments fixed debt would remain within 100% of net debt. However, Calderdale has a high level of short term investments due to a number of factors such as robust balance levels and a beneficial cash flow position at certain times of the year. Due to the formula to calculate this indicator, the Authority's fixed debt can exceed 100% of its net outstanding principal sums (i.e. fixed debt will be more than net overall debt).
- (ii) Therefore it is recommended that the Council sets an upper limit on its fixed rate exposure for 2010/11 of 115% of its net outstanding principal sums. This takes account of both Calderdale's particular expected position whilst providing the flexibility to take advantage of interest rate movements whilst limiting any potential exposure.
- (iii) If future Council decisions on expenditure are taken and the levels of investments fall significantly then a further report to members with a revised upper limit on fixed interest exposure may be necessary.

2 Variable interest rate exposure

- (i) It is further recommended that the Council sets an upper limit of its variable interest rate exposures for 2010/11 of 15% of its net outstanding principal sums. Again this will enable us to retain sufficient flexibility to cover our day to day obligations and take advantage of interest rate movements within an overall exposure limit.

D Exchange rate risk

All transactions are conducted in GB pounds so therefore there is no exchange rate risk to the Authority.

E Refinancing risk

The Authority will keep reliable records and forecasts of the terms and the maturities of its borrowings, Capital project and partnership funding, to allow the authority to plan the timing of, and successfully negotiate appropriate terms for, its refinancing. Also to aid this the Council will set upper and lower limits for the maturity structure of its borrowings so that when taking long term borrowing decisions the Council will consider the repayment date of new and existing loans. Repayable loans as a percentage of total debt will be kept within the limits indicated for the following periods.

Period	Lower limit	Upper limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	60%	100%

These limits will provide a high degree of long term stability whilst retaining the flexibility of being able to smooth out the maturity profile of the Authority's debt when interest rates are in our favour so that the Council is not over exposed to the risks of re-financing large amounts of borrowing in periods when interest rates might be high or uncertain.

F Legal and regulatory risk

This policy is an up to date record of our powers, and as the content describes we do adhere to the CIPFA code of conduct for Treasury Management, relevant Finance Acts and Local Government Acts. We do issue copies of this policy to our counterparties if requested. We also only enter into transactions with counterparties as defined in A above (credit and counterparty risk).

G Fraud, error corruption and contingency management

To combat fraud, error and corruption we use the following control environment to create and maintain an effective audit trail.

- (i) A full analysis of all transactions and processes are kept both manually and electronically for 7 years.
- (ii) We report to the relevant committee every 6 months on the progress of Treasury Management to keep Members informed.
- (iii) There are plans to create a member champion who will have overall responsibility for Treasury Management who will be kept fully informed of all major Treasury Management issues and involved in Policy development.
- (iv) There is a stringent delegation of duties in that one person initiates each transaction, a different person checks it and a third person authorises it. We also have back up staff in case of staff absence.
- (v) Both an electronic version (with back-ups) and manual records are kept of all transactions.
- (vi) Sufficient insurance arrangements have been made to cover the Authority in the event of fraud or corruption.
- (vii) An annual audit of Treasury Management is carried out by internal audit as part of their review of the Council's core financial systems. In addition there is a system of spot checking of the Council's investments to test compliance against the Treasury management policy.

H Market risk

The principal sums invested at present are set and are not subject to market fluctuations.

TMP 2 Performance Management

This Authority is committed to the pursuit of value for money in its Treasury Management activities, and to the use of performance (which includes benchmarking) in support of that aim, within the framework set out in its Treasury Management policy statement.

TMP 3 Decision making and analysis

This Authority in respect of every decision made will:-

- (i) Be clear about the nature and extent of the risks to which the Authority may become exposed.
- (ii) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- (iii) Be content that the documentation (as contained in the daily treasury management working procedures) is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping.
- (iv) Ensure that third parties are judged satisfactory in the contexts of the Authority's creditworthiness policies, and that limits have not been exceeded.
- (v) Be content that the terms of any transaction have been fully checked against the market, and have been found to be competitive.

TMP 4 Approved Instruments, Methods and Techniques

Raising Capital Finance

Apart from the use of leasing, no forms of finance shall be used other than the following.

- (i) From the National Debt Commissioners or the Public Works Loan Board (PWLB). This has been and will continue to be the main source of the Council's longer term borrowing.
- (ii) From any institution authorised under the Banking Act 1987 or from the Bank of England. This will take the form of both short term loans and also long term loans in the form of LOBOs which stands for lenders option borrowers option.
- (iii) From any other Local Authority or Public corporation along with any associated Pension funds. This will mainly take the form of short term loans.

- (iv) From an overdraft negotiated with the Council's own bankers. The current overdraft limit is £1 million and interest is charged at 1% above the base rate. This facility is used sparingly either when temporary borrowing is difficult or when the sums involved are small (e.g. less than £500,000).
- (v) Loan instruments not transferable by delivery, such as Bonds, Mortgages or any other document acknowledgement that money has been lent to the Authority.

The Council does not currently engage in any other form of borrowing available to it.

TMP 5 Organisation, clarity and segregation of responsibilities and dealing arrangements

(i) Full Council

Responsible for the setting of and changes to the Treasury Management policy and receiving reports on Treasury Management practices and activities, including as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after the close of the financial year.

(ii) Cabinet

Responsible for the approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices. To approval of the division of responsibilities, receiving and reviewing regular monitoring reports and acting on recommendations. Also approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

Responsible for reviewing the treasury management policy and procedures and making recommendations to other committees.

(iv) Head of Finance

- a) Submits and reviews treasury management policy/practices
- b) Reviews the performance of the treasury management function.
- c) Makes decisions on investments and borrowings exceeding 1 year.
- d) Report to elected Members as provided for in paragraph 6 below.

(v) Assistant Head of Finance

- a) Ensures that Treasury management staff receive adequate training and that there is effective division of responsibilities within the treasury management function.

- b) Ensures all treasury management staff are aware of and have access to a copy of the Bank of England's "London code of conduct".
 - c) Ensures the adequacy of internal audit and liaises with external audit.
 - d) Recommends the appointment of any external service providers.
- (vi) Group Accountant (Projects)
- a) Assesses long term borrowing requirements.
 - b) Manages debt in accordance with the Treasury Management Strategy.
 - c) Manages the overall treasury management function.
- (vii) Management Accountant (Treasury Management)
- a) Ensures that the day to day activities are carried out in accordance with this statement.
 - b) Decides and negotiates borrowings and investments on call or for fixed periods.
 - c) In consultation with the Group Accountant (Projects), decides and negotiates borrowings and investments for fixed periods up to one year.
 - d) Carries out the longer term borrowing and investments as approved by the Head of Finance.
 - e) Negotiates and arranges leasing for the Council on various items of equipment.

In the absence of the Management Accountant (treasury management), all duties will pass to the Group Accountant (Projects) with the exception of the day to day activities, which will be carried out by the management accountants (projects) in consultation with the Group Accountant (Projects).

In the absence of the Group Accountant (Projects), all duties will pass to the Assistant Head of Finance (Accounting Services).

TMP 6 Reporting Arrangements

The Head of Finance will submit the following reports to Committee:-

- a) Prior to the beginning of each financial year, a report to Cabinet and Council setting out the strategy and policy for the Treasury management function.

- b) Prior to the beginning of each financial year, a report to Cabinet and Council setting the Debt limits and Prudential indicators of the Authority.
- c) A mid-term review report to Cabinet and Council for the 6 months to 30 September each year setting out the Council's activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.
- d) An annual report to Cabinet and Council setting out the Council's activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.
- e) Reports as appropriate to Audit committee asking them to scrutinise the strategy and policy to ensure compliance and effective policy development.

TMP 7 Budgeting, Accounting and Audit Arrangements

- a) The Authority will ensure that its auditors and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices. Internal audit will also carry out an annual review of loans and investments reporting any variance from normal practice.
- b) The Head of Finance will prepare as part of the revenue budget process an annual budget for treasury management and will exercise effective control over the budget and report to members via the Authority's overall revenue monitoring.

TMP 8 Cash Flow Management

- a) With the exception of petty cash imprests and money held in School's own bank accounts, all money in the hands of the Council would be aggregated for the purpose of Treasury management. Cash flow projections will be prepared before the start of the Financial year and updated on a regular basis
- b) The main objectives to be achieved are:
 - (i) Borrowing
 1. To manage the Council's debt maturity profile.
 2. To forecast average future interest rates and to borrow accordingly.
 3. To use predominantly fixed rate borrowing in order to maintain certainty and stability in the budgeting process.

4. To reschedule debt where appropriate in order to take greater advantage of interest rate movements.

(ii) Investments

1. To use the Council's balances to minimise external borrowings.
2. Only to externalise the Council's funds and balances where to do so would generate a level or return significantly greater than could be secured by internal investment.
3. When investing we will ensure that the impact of adverse market fluctuations on the Authority are minimised.

TMP 9 Money Laundering

This Authority is alert to the possibility that it may become the subject on an attempt to involve it in a transaction involving the laundering of money. Accordingly, any suspicions will be reported to the Group Accountant (projects), the Assistant Head of Finance (Internal Audit, LMS and Insurance) and upwards to the Head of Finance.

The Authority's Treasury Management function protects itself from the possibility of being involved in a money laundering transaction as follows:

- (i) Treasury management transactions are not in physical cash and the Authority has a policy of not accepting cash of more than 15,000 Euros equivalent in one transaction. This is set in S151 Standards.
- (ii) The Authority restricts its transactions to the institutions of bodies listed in part II of the schedule to the Local Authorities Regulations 1990, the Bank of England, any other institution authorised under the Banking Act 1987 and Building Societies.
- (iii) Most transactions (apart from PWLB) are conducted through brokers who have their own procedures for identifying and recording third party identities.

TMP 10 Staff Training and Qualifications

This Authority 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. Any training needs will be identified informally as they arise and formally as part of the Council's Performance Appraisal Scheme (PAS).

The Head of Finance will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and their responsibilities.

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

TMP 11 Policy on External Service Providers

This Authority only makes use of external service providers for money-broking who act as intermediaries, making introductions between ourselves and the Banks and Building societies etc who we borrow or lend to and the two ratings agencies Fitch and Moodys. No other external managers will be used without prior to approval of Cabinet/Council.

TMP 12 Corporate Governance

This Authority is committed to the pursuit of proper corporate governance accordingly the Treasury Management function will be undertaken with openness and transparency, honesty, integrity and accountability.

- (i) We will adopt the principles and policies promoted by CIPFA in their Code of Practice which will deliver the framework for demonstrating openness and transparency in the Authority's treasury management function.
- (ii) The Authority will publish and give free access to information about its Treasury Management activities subject to the Freedom of Information Act along with any other documents connected with its Treasury management activities.
- (iii) The Authority will establish clear treasury management policies, the separation of roles in treasury management and the proper management of relationships both within and outside the Authority to establish the integrity of the function.
- (iv) The Authority will establish robust treasury management dealings and an absence of business favouritism, which will create keen completion in treasury management, this will lay the groundwork for fairness.

Documents Available for Public inspection at Princess Buildings, Halifax, HX1 1TP

1. CIPFA Code of Practice for Treasury Management in the public services.

APPENDIX 2

