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Date: 9th July 2024

Our Ref: KB

Dear Sir/Madam,

Addendum Council – 10th July 2024

I refer to item no 11a) and b) on the Agenda for the meeting of Council on Wednesday, 10th July 2024 and attach a copy of the **Financial Procedure Rules (Page 2)** report and **Treasury Management 2023/24 – Year End Review (Page 31)** that went to Audit and Standards Committee on 2nd July 2024 and was marked 'to follow' on the agenda containing recommendations put forward for Council approval.

In addition, the following item be added to the agenda as follows:

ADDITIONAL ITEM 11c: TREASURY MANAGEMENT PRACTICES a copy of the report of the Assistant Director – Finance and Finance Manager – Treasury is attached (**Page 42**) that was submitted to Audit and Standards Committee on 2nd July 2024 and after consideration the following recommendation was put forward for Council approval:

That the revised Treasury Management Practices are noted and recommended to Council for approval

Yours faithfully,

A handwritten signature in black ink, appearing to read 'T. Shardlow', written over a light grey rectangular background.

Tom Shardlow

Chief Executive

To: Members of the Council

AGENDA ITEM NO.11a

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit & Standards Committee - 2nd July 2024

From: Strategic Director – Corporate Resources

Subject: Financial Procedure Rules - Update

1. Purpose of Report

1.1 To note the proposed changes to the Financial Procedure Rules further to a restructure of the Management Team plus updates to outdated terminology and inclusion of details on Subsidy Control rules.

2. Recommendations

2.1 That the proposed updates are noted.

2.2 That the updated document is recommended to Council for approval for inclusion in the Constitution.

3. Background

3.1 The current Financial Procedure Rules (FPRs) have been in place since prior to the pandemic with the last update in 2019. Restructures and revised ways of working make the current document out of date and this is a refresh to be in line with the current structure.

4. Body of Report

4.1 The Management Team restructure in 2023, further changes to the responsibilities of Strategic Directors in 2024 on appointment of the new Chief Executive and the updated Corporate Debt Policy approved in September 2023 has resulted in a variety of changes required to the current FPRs.

4.2 Appendix A is the revised FPRs with tracked changes to provide clear notice as to the updates that are required.

4.3 The Financial Accounting Instructions as referred to throughout the FPRs are not attached as these are processes for operational management but will be shared internally with officers.

5. Appendices

5.1 Appendix A - Financial Procedure Rules (tracked changes)

6. Background Papers

6.1 None.

FINANCIAL PROCEDURE RULES

These comprise the Council's Financial Standing Orders and Financial Regulations.

(a) Financial Standing Orders

(1) The Cabinet is responsible for regulating and controlling the finances of the Council.

(2) The Strategic Director – Corporate Resources is designated as the responsible officer in accordance with Section 151 of the Local Government Act 1972 (for the proper administration of the Council's financial affairs) and the designated officer in accordance with section 114 of the Local Government Finance Act 1988 (incurring of unlawful expenditure) and is referred to in these Standing Orders or Financial Regulations as the Chief Financial Officer.

(3) The Audit and Standards Committee shall be responsible for making and amending from time to time, such financial regulations as considered necessary for the control and supervision of the Council's finances in accordance with these standing orders.

(4) The Chief Executive, Strategic Directors and Assistant Directors of the Council shall be responsible for ensuring that the provisions of these Standing Orders and associated Financial Regulations are observed by the employees of their Service Unit.

(5) The Chief Financial Officer shall report to the Cabinet on the level of resources to be used in each financial year and shall keep it informed with respect to the Council's finances and financial performance and activities.

(6) The Cabinet shall be responsible for advising the Council on the state of the Council's finances and in particular shall make recommendations to the Council regarding the capital and revenue budgets for each portfolio. This will include the level of local resources which need to be raised for the following financial year and any additional budget allocations which are to be made, after considering a report on the matter from the Chief Financial Officer having regard to the resources available.

(7) The Cabinet and employees of the Council shall only incur expenditure or raise income in accordance with approved revenue or capital budgets allocated to them by the Council. Amounts provided within approved budgets can only be transferred for other purposes (virement) in accordance with Financial Accounting Instruction A on virement requests.

(8) All employees shall consult the Chief Financial Officer on any matter within their control, which is likely to materially affect the finances of the Council before incurring any commitment or reporting on the matter to any Cabinet member.

(9) The Council shall be responsible for the preparation and publication of the Council's accounts in accordance with the most recent Accounts and Audit Regulations.

(10) Nothing in these standing orders shall prevent the incurring of expenditure considered essential to meet immediate and urgent needs as covered by Section 138 of the Local Government Act 1972 subject to its action being reported to the next meeting of the Cabinet.

(b) Financial regulations issued under Standing Orders

INDEX

1. GENERAL	4
2. MAKING FINANCIAL DECISIONS	5
3. FINANCIAL ADMINISTRATION	6
4. CAPITAL SPENDING	7
5. CONTRACTS	7
6. REVENUE BUDGETS	9
7. MONITORING & VIREMENT OF BUDGETS	9
8. ORDERING WORK, GOODS AND SERVICES	10
9. PAYING INVOICES	11
10. PAYING EMPLOYEES	12
11. IMPREST ACCOUNTS (PETTY CASH & FLOATS)	14
12. INCOME	15
13 BORROWING AND LENDING	16
14 SECURITY	17
15. LAND & PROPERTY	18
16. STOCK, STORES & EQUIPMENT	18
17. INTERNAL AUDIT	19
18. ASSET REGISTERS	20
19. VALUABLES	21
20. INSURANCE	21
21. GRANTS TO OTHER ORGANISATIONS	22
22. MONEY LAUNDERING	23
23. COMMUNITY RIGHT TO CHALLENGE	23
24. SUBSIDY CONTROL	23
Definitions	
Accounting code	23
Accounting system	23
Agreed price	23
Budget head	23
Capital expenditure	23
Central purchasing contract	23
Contract sum	23
Cost Centre	23
Internal Control	23
Management Team	23
Money	24
Revenue expenditure	24
Stock	24

Suppliers	24
Tender/Quotation	24
Financial Accounting Instructions	25

FINANCIAL REGULATION ONE: GENERAL

1.1 These Financial Regulations (FRs) set out the rules for the proper financial administration of the Council's affairs. They are minimum requirements, and all Members and employees must comply with them. Non-compliance with the FRs may result in disciplinary action.

1.2 They are supplemented by Financial Accounting Instructions (FAIs) that provide more detailed guidance. The Chief Financial Officer will issue and amend these as required and links between FRs and relevant FAIs will be shown throughout these Regulations.

1.3 Financial Regulations and Instructions must be used in conjunction with the Constitution and other appropriate Codes and Protocols including:

- Contract Procedure Rules
- Members Code of Conduct
- Employee Code of Conduct
- Budget and Budgetary Framework
- Anti Money Laundering Framework

(This is not a complete list and is provided for general guidance)

1.4 The amounts £A to £H in these Financial Regulations have the initial values given to them in the table below.

£A = £7,500

£B = £25,000

£C = £125,000

£D = £3,500,000

£E = £500

£F = £10 £G = £1,000

£H = £5,000

1.5 All monetary values included in these FR's shall be deemed to exclude Value Added Tax.

1.6 The Chief Financial Officer shall review all monetary limits annually and any amendments, having regard to inflation and other

relevant factors, shall be reported to the Audit and Standards Committee and Council for approval.

1.7 Questions of interpretation of Financial Regulations should be referred to the Chief Financial Officer.

1.8 References to the Chief Financial Officer shall include other employees authorised to undertake duties on behalf of the Chief Financial Officer, generally the Assistant Director – Finance.

FINANCIAL REGULATION TWO: MAKING FINANCIAL DECISIONS

2.1 All financial decisions are governed by the Constitution and by the Budget and Budgetary framework, which is approved by the Council prior to the start of each financial year.

2.2 All items of income and expenditure must be included within the revenue accounts of the Council unless a specific decision is taken to treat them as capital items and provision is made in the capital program for them.

2.3 Expenditure incurred in any financial year and financed from reserve contributions should be included in the annual budget. However, if additional spending is required during the course of the year, this should be identified to Cabinet and a virement undertaken and approved as necessary, subject to the virement limits.

2.3 No expenditure is to be incurred by the Budget Holder unless there is specific provision for it in the revenue estimates or capital programme of the Council or it is covered by the Council's rules on virement.

Financial Accounting Instruction A - Virement Request Procedures

2.4 The Chief Financial Officer will issue Budget Guidelines annually, setting out the budget strategy, timescales and broad guidelines for the budget setting process for capital and revenue.

2.5 All reports to Members that contain financial information must be agreed with the Chief Financial Officer prior to publication.

FINANCIAL REGULATION THREE: FINANCIAL ADMINISTRATION

3.1 The Chief Financial Officer, in consultation with the appropriate Strategic Director/Assistant Director where necessary, shall determine all accounts, accounting procedures and accounting records of the Council and its employees.

Financial Accounting Instruction B - Retention of Financial Documents.

3.2 The following general principles requiring the separation of duties shall be observed in the allocation of accounting tasks: -

- (a) The duty of collecting sums due to the Council must be separated as completely as possible from the duty of providing information regarding these sums and the checking of these sums; and
- (b) The duty of certifying accounts to be paid in respect of goods or services received shall be separated as completely as possible from the duties of ordering or recording their receipt; and
- (c) Employees charged with the duty of examining and checking the accounts of cash transactions shall not themselves be engaged in any of these transactions.

(These examples are not exhaustive, and the Head of Audit and Governance should be consulted where any of these principles are in question).

3.3 All employees are required to consult the Chief Financial Officer on any matters involving the organisational structures or practices within their Service Unit, which may have an effect on the operation of financial controls.

3.4 All employees should consult the Chief Financial Officer on matters affecting the finances of their services who will determine the form and content of financial information reported.

3.5 The Chief Financial Officer shall present annually to the Council a Statement of Accounts in accordance with the Accounts and Audit Regulations and any Accounting Codes of Practice.

3.6 The Chief Financial Officer shall be responsible for the submission of the Council's Accounts to the External Auditor.

FINANCIAL REGULATION FOUR: CAPITAL SPENDING

4.1 The Council will approve the capital resources for each financial year, prior to the commencement of the year together with an approved capital programme. The Cabinet will be permitted to change the approved programme under any delegations given by the approved budget and budgetary framework for the year.

4.2 All proposed capital schemes will be submitted to the Corporate Programme Strategic Board which will either approve them, in accordance with the Capital Strategy, for inclusion in a future draft capital programme or not. Any capital schemes that involve additional revenue costs must also be approved by the Council's Management Team. The Capital Accountant must be consulted when Business Cases are drafted and approved. The Chief Financial Officer will submit the draft capital programme and commentary on the availability of resources to the Cabinet for approval as required.

FINANCIAL REGULATION FIVE: CONTRACTS

5.1 All contracts shall comply with the Council's Contract Procedure Rules.

5.2 A Strategic Director or other employee responsible for letting a contract shall be satisfied that a contractor is financially capable of carrying out his obligations. Before any tender is accepted or contract signed, such financial status enquiries as considered necessary should have been undertaken to determine that the appropriate bonds and insurance's have been affected and any necessary provision for liquidated damages made. For key contracts with a total value exceeding £C the financial stability must be continually assessed to identify any changes at the earliest opportunity and Insurance cover of the contractor must be confirmed at least annually.

Financial Accounting Instruction C – Financial Checks

5.3 In any case where the total cost of any work carried out under a contract is expected to exceed the contract sum, this will be escalated according to the virement limits procedure, in consultation

with the Chief Financial Officer (see Financial Accounting Instruction A).

5.4 Claims from contractors in respect of matters which cannot be resolved clearly within the terms of any existing contract shall be referred to the Assistant Director for Democracy & Governance for consideration of the authority's legal liability and, where necessary, to the Chief Financial Officer for financial consideration before settlement is reached.

5.5 Where progress of a contract is delayed so that it appears that the contract period may be exceeded it shall be the duty of the contract manager to take appropriate action in accordance with the Contract Procedure Rules, liaising with the Procurement team where applicable, and report it to the relevant Cabinet Member.

5.6 In every case a contract manager issuing an interim or final certificate for payment under a contract, shall be satisfied that all contractual terms have been met, the work has been carried out in accordance with the requirements of the relevant contract and that any payments made under the contract are accurate. The supervising employee shall notify the Assistant Director – Governance & Democracy in writing on satisfactory completion of the contract.

5.7 Where contracts entered into by the Council are supervised and managed by persons other than the Council's own employees the agreement with the person having control of the works shall provide for the Council's Contract Procedure Rules and these Financial Regulations to be followed.

FINANCIAL REGULATION SIX: REVENUE BUDGETS

6.1 The responsible Strategic Director or budget holder in consultation with the Chief Financial Officer shall prepare annual estimates of income and expenditure for all services. Cabinet will be updated periodically throughout the budget setting process with the anticipated budget position based on the latest Central Government advice and funding information. This will allow Cabinet to assess the full implications for the Council.

6.2 Overview and Scrutiny Panels will have an opportunity to comment on the latest financial information regarding the setting of the revenue budget for the coming year.

6.3 The revenue estimates shall be summarised and submitted to the Cabinet by the Chief Financial Officer with appropriate recommendations, including the local tax requirements for the ensuing year.

6.4 The inclusion of items in the approved revenue estimates shall provide the necessary authority to incur such expenditure.

FINANCIAL REGULATION SEVEN: MONITORING & VIREMENT OF BUDGETS

7.1 These regulations apply to both revenue and capital items.

7.2 It is the duty of each Strategic Director and/or budget holder and the Cabinet to monitor and regulate spending within approved estimates.

7.3 Where it appears that the amount of approved expenditure may be exceeded or there is a shortfall of income, this will be identified through the budget monitoring procedures and reported monthly to Management Team. Management Team will consider what mitigating action can be taken. A quarterly budget monitoring report will be submitted to Cabinet.

7.4 If any increased net expenditure or decreased income cannot be met within the approved budgets then the appropriate Strategic Director or budget holder should report on the matter together with a recommendation as to how it should be dealt with to the relevant Portfolio Holder and if necessary to the Cabinet, in consultation with the Chief Financial Officer.

7.5 An amount exceeding that provided in approved estimates can be covered by transfer from another budget head (virement), subject to the virement limits set out in Financial Accounting Instruction A and there is no commitment in respect of a subsequent year.

See Financial Accounting Instruction A – Virement Limits

FINANCIAL REGULATION EIGHT: ORDERING WORK, GOODS AND SERVICES

8.1 All employees must comply with the Council's Contract Procedure Rules to demonstrate that all procurement under their control is conducted in such a way as to obtain work, goods and services in the most cost-effective manner through the use of quotations and tenders.

8.2 The purpose of the Contract Procedure Rules is to:

- ensure that the Council promotes the probity and integrity of the procurement process;
- provide employees involved in the procurement process a framework within which to work;
- ensure fairness in allocating contracts and protect employees from allegations of corruption and/or collusion with suppliers and contractors;
- promote public accountability;
- ensure compliance with legal requirements;
- achieve value for money on behalf of the Council; and
- support the Council's corporate aims and objectives in relation to procurement.

8.3 Contract Procedure Rules must be complied with strictly. They are minimum requirements, and any instances of non-compliance may result in disciplinary action. A more thorough procedure may be appropriate for some contracts such as where the EU procurement regulations apply, and advice must be sought from the Procurement Team.

In some exceptional circumstances, an exemption to Contract Procedure Rules may be granted. For further information and guidance refer to Contract Procedure Rule Three.

Financial Accounting Instruction D - Official Orders/ Electronic Orders and Commitment Accounting.doc

Financial Accounting Instruction E - Payment by Credit

Card.doc

FINANCIAL REGULATION NINE: PAYING INVOICES

9.1 The normal method of payment of amounts due from the Council shall be by BAC's or, in exceptional circumstances, cheque or other payment instructions drawn on the Council's banking accounts by the Chief Financial Officer. BACS is the preferred method wherever possible. The only exceptions are any payments made from petty cash or other imprest accounts and payments by direct debit or corporate credit card. Direct Debit arrangements must be approved by the Treasury Team beforehand.

Financial Accounting Instruction F – Payment by Direct Debit.doc

Financial Accounting Instruction E - Payment by Credit Card.doc.

9.2 Every account submitted to the Chief Financial Officer for payment shall be submitted in the manner and frequency prescribed by him/her.

9.3 Authorised signatory lists must be maintained by Assistant Directors and copies sent to the Treasury, and Human Resources teams.

9.4 The relevant budget holder shall satisfy himself/herself that amounts are properly due and payable by the Council and will adhere to the no purchase order, no pay policy.

9.5 All reimbursements of expenses to employees and members of the Council shall be made under the control of and in a manner prescribed by the Chief Financial Officer.

9.6 All payments shall be subject to the correct treatment of any taxation as required by relevant legislation.

Financial Accounting Instruction G - Taxation.doc

FINANCIAL REGULATION TEN: PAYING EMPLOYEES

10.1 The payment of all salaries, wages, recharges of pensions, statutory deduction of tax and National Insurance etc., compensation and other regular payments or allowances to all employees or former employees of the Council and members, under any scheme approved by the Council, shall be made in accordance with arrangements established by the Chief Financial Officer.

10.2 The People Services Manager with the agreement of the Chief Financial Officer or Assistant Director – Finance , in the absence of the CFO, is empowered automatically to apply salary and wage awards, expenses and other allowances approved by the various Joint Negotiating Councils. No other payment or allowance may be granted unless approved in accordance with Council policies and procedures.

10.3 Appointments of all employees shall be made in accordance with approved establishments, grades and rates of pay.

10.4 The People Services Manager shall notify the appropriate employees as soon as possible and, in a form, prescribed by the Chief Financial Officer, together with supporting documents, of all appointments and other related matters.

10.5 All time records or other pay documents shall be in a form prescribed or approved by the Chief Financial Officer.

10.6 All claims by employees of the Council for payment of car mileage shall be submitted in the prescribed way approved by the Chief Financial Officer.

10.7 Upon receipt of a notification that a mileage claim has been submitted, line managers must ensure that the amounts claimed are reasonable and that the expenses were necessarily incurred and are properly payable by the Council in line with Council Policy.

10.8 Employees should submit claims within three months of the expenses being incurred. Claims for expenses incurred in March must be submitted as soon as possible after the year end and should be no later than the end of April.

10.9 Payments to members, including co-opted members of the Council or its Committees who are entitled to claim traveling or other allowances will be paid upon receipt of the prescribed form duly completed by them.

10.10 Members claims submitted more than three months after the expenses were incurred will be paid only with the express approval of the Chief Financial Officer. Claims for expenses incurred in March must be submitted as soon as possible after the year end and should be no later than the end of April.

FINANCIAL REGULATION ELEVEN: PETTY CASH, FLOATS AND IMPREST ACCOUNTS

11.1 The Chief Financial Officer shall provide petty cash accounts, floats and imprest accounts, as considered appropriate. All such accounts shall be maintained in a form prescribed by the Chief Financial Officer

11.2 Petty cash payments shall be limited to minor items of expenditure valued at £25 or less. They must be supported by a receipt wherever possible, and all receipts and vouchers shall be retained and forwarded to the Chief Financial Officer, with a claim for reimbursement. All vouchers and reimbursement requests shall be certified by an authorised employee and struck through as paid after being processed.

Financial Accounting Instruction H - Petty Cash Accounts.doc

11.3 Any employee responsible for a petty cash account, float or imprest account shall, in March every year, and at any other time as requested, provide the Chief Financial Officer with a certificate to confirm the balance of the amount held.

11.4 An employee ceasing to hold a petty cash account, float or imprest account shall account to the Chief Financial Officer for the amount advanced.

FINANCIAL REGULATION TWELVE: INCOME

12.1 The collection and custody of all money due to the Council shall be under the supervision of the Chief Finance Officer.

12.2 Proposals dealing with new or existing sources of income exceeding £A, including scales of charges to be made for work done, services rendered, goods supplied, fees, tolls, rents and other income, shall not be submitted to the Council until a report by the Strategic Director/ Assistant Director and the Chief Finance Officer, on the financial implications of the proposal, has been considered by the Cabinet.

12.3 The Chief Finance Officer shall be notified promptly of all money due to the Council and of contracts, leases and other arrangements entered into which involve the receipt of money by the Council. The Chief Finance Officer should be consulted on applications for grant money before they are submitted. The Chief Finance Officer shall have the right to inspect any documents or other evidence in this connection as he/she may decide.

12.4 Each employee shall furnish the Chief Financial Officer with such particulars in connection with work done, goods supplied or services rendered and of all other amounts due as may be required to record correctly all sums due to the Council and to ensure the prompt rendering of accounts for the recovery of income due.

Financial Accounting Instruction I - Debtor Accounting Procedures.doc.

12.5 The Chief Financial Officer may make arrangements with individual debtors to allow payment over a reasonable period of time or over the length of time the service is being provided (such as with annual bills), having regard to the cashflow implications of permitting such arrangements.

12.6 Credit notes should only be used when a replacement invoice is issued or when the initial invoice is no longer considered to be due and payable. In all other cases the write off procedure must be used.

12.7 The Chief Financial Officer shall have authority to write off debts due to the Council not exceeding £A and any debt exceeding this sum where the debtor has been judged bankrupt or is the subject of a

winding-up order or is deceased with no estate. Debts in excess of this sum may only be written off with the authorisation of the appropriate Portfolio Holder.

12.8 The Council's Corporate Debt Policy enables debt write-offs which must not exceed £F for Revenues and Housing Supervisors, £G for Revenues and Housing Managers and £H for Finance and Housing Assistant Directors.

12.9 Employees may arrange for the sale of scrap or other surplus materials, furniture or equipment without bids where the expected income does not exceed £E. Where the expected income is greater, the disposal process must be agreed by the Chief Financial Officer in consultation with the Assistant Director – Governance & Democracy . Payment shall be made in cash before delivery is taken unless otherwise agreed with the Chief Financial Officer. All disposals should seek to obtain the best value for the Council. The use of auction sites such as E-Bay are not permitted.

FINANCIAL REGULATION THIRTEEN: BORROWING AND LENDING

13.1 All arrangements with the Council's bankers shall be made by or under arrangements approved by the Chief Financial Officer, who shall be authorised to operate such banking accounts as considered necessary.

13.2 The Chief Financial Officer may arrange overdraft facilities within such limits as appropriate.

13.3 The Chief Financial Officer shall be responsible for raising all finance as may be required from time to time; including borrowing, leasing and other resources and repayment in accordance with any Code of Practice and any statutory controls that may be in operation. All borrowings shall be in the name of the Council.

13.4 The Chief Financial Officer shall be responsible for all matters relating to the management of all money in the hands of the Council in accordance with approved Treasury Management and Investment policies and strategies.

13.5 The Chief Financial Officer shall report to Council , prior to the start of the financial year identifying the borrowing and investment strategies being followed and subsequently on the results achieved over the preceding year. Treasury Management reports shall be taken to the Audit and Standards Committee by the Assistant Director – Finance and will be followed by approval at Council.

13.6 The Chief Financial Officer shall be the Council's registrar of stocks, bonds and mortgages and shall maintain records of all borrowing of money by the Council and shall be responsible for the safe custody of all securities.

FINANCIAL REGULATION FOURTEEN: SECURITY

14.1 Each employee is responsible for maintaining proper security at all times for all buildings, stocks, stores, furniture, equipment, cash, etc., under their control. The Assistant Director - Democracy and Governance should be consulted in any case where security is thought to be defective, assets cannot be accounted for or where it is considered that special security arrangements may be needed.

14.2 Maximum limits for cash holdings shall be agreed with the Chief Financial Officer and shall not be exceeded without prior approval. Employees with responsibility for holding and carrying cash must ensure that they are aware of the insurer's current requirements in this respect.

14.3 Keys to safes and similar receptacles are to be carried by those responsible for them at all times; the loss of any such keys must be reported to the Chief Financial Officer and Assistant Director - Democracy and Governance immediately. The conditions laid down by the Council's insurers concerning the removal of safe keys and safe combination codes from premises outside working hours shall be fully adhered to. Employees having responsibility for such keys and codes must ensure they are aware of insurer's current requirements in this respect.

14.4 All employees and members shall be responsible for maintaining proper security and privacy in respect of information held by them and must comply with all relevant legislation.

14.5 An appropriate form of identification shall be issued to each employee, including temporary and agency staff and contractors, which must be displayed at all times.

14.6 If the Council's Fidelity insurance cover requires adherence to a 'System of Check', this should be fully complied with. If full compliance ceases to be possible or practicable, the matter must be referred promptly to the Assistant Director - Finance.

Financial Accounting Instruction J - Security Limits and Controls.doc.

FINANCIAL REGULATION FIFTEEN: LAND & PROPERTY

15.1 The Strategic Director – Place and Economy will maintain a register terrier of all land and properties owned by the Council, which shall be regularly updated using information supplied by HM Land Registry.

15.2 The Assistant Director – Democracy and Governance shall have the custody of all title deeds under secure arrangements agreed with the Chief Financial Officer.

15.3 All disposals of land and property shall take place only after consideration of a report by the Strategic Director – Place and Economy on the proposed disposal by the Assistant Director – Economy and Regeneration (delegated responsibility) or Cabinet or delegated Cabinet member. When preparing the report, the Chief Financial Officer must be consulted. All disposals should seek to obtain the best outcome for the Council. Consideration must be given to using the Council's e-tendering portal to undertake an openly advertised sealed bid process for the sale of land and property. This is a fully auditable, transparent and equitable method, please contact the Procurement Team for further details.

FINANCIAL REGULATION SIXTEEN: STOCKS & STORES

16.1 All employees shall be responsible for the care and custody of stocks and stores used regularly by them and their departments. Stores shall not be held in excess of reasonable requirements.

16.2 All valuation methods, stores accounts and all records in connection with the accounting for stocks and stores shall be approved by the Chief Financial Officer.

16.3 Annual stock takes shall be undertaken, and the Chief Financial Officer shall determine how to deal with any surpluses or deficiencies shown in any items of stock. Discrepancies exceeding £E must be reported to the Chief Financial Officer and adjustments to stores records shall only be made with their prior approval.

16.4 Each Assistant Director shall supply the Chief Financial Officer with such returns about stores as may be necessary for the purpose of the accounting and financial records of the Council.

16.5 Disposals or write-off of stock shall follow laid down procedures. The sale of any surplus stock must comply with Procedure Rule 12 above. All disposals should seek to obtain the best value for the Council.

Financial Accounting Instruction K - Disposal or Write-off of Stock.doc.

FINANCIAL REGULATION SEVENTEEN: INTERNAL AUDIT

17.1 A continuous internal audit shall be maintained under the independent control and direction of the Strategic Director – Corporate Resources. The Public Sector Internal Audit Standards define internal audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

17.2 Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation that the Assistant Director – Democracy and Governance considers necessary to enable the internal audit service to fulfil its responsibilities. Auditors also have authority to access all

relevant computer data as part of their work, including that registered under the Data Protection Act.

17.3 Internal audit is authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Council to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

17.4 The Central Midlands Audit Partnership team has the right of direct access to the Head of Paid Service, the Monitoring Officer, Elected Members, the Chair of the Audit and Standards Committee, Directors and Senior Managers.

17.5 All employees are required to respond promptly, in writing, to all points raised in audit reports addressed to them.

17.6 Whenever any matter arises which involves, or is thought to involve, irregularities concerning the property or functions of the Council, any employee discovering the matter shall immediately notify their own Strategic Director/Assistant Director or the Head of the Central Midlands Audit Partnership. Any Strategic Director/Assistant Director becoming aware of any such irregularities shall immediately notify the the Head of Central Midlands Audit Partnership who shall take such steps as considered necessary by way of investigation and report.

17.7 Where any matter referred to in the previous paragraph 17.6 is brought to light by the Central Midlands Audit Partnership during routine audit procedures, the relevant Strategic Director shall be notified immediately.

17.8 The Central Midlands Audit Partnership shall report twice yearly to Members on the work of Internal Audit. Members shall also approve the Annual Internal Audit Plan.

FINANCIAL REGULATION EIGHTEEN: ASSET REGISTERS

18.1 The Assistant Director –Central Operations is responsible for maintaining a register of IT equipment throughout the Council and the

Assistant Director – Environment and Enforcement is responsible for maintaining a register of all transport and plant. All Assistant Directors shall be responsible for maintaining asset registers for all other items that are valued at £E or above.

18.2 All items in the asset register should be marked as Council property. A serial number should be recorded and cross-referred, excluding office furniture.

18.3 Each asset register should be updated at least annually, and the existence of each asset verified. No Council property should be taken away from Council premises unless it is with the permission of the relevant Director/Senior Manager.

FINANCIAL REGULATION NINETEEN: VALUABLES

19.1 All valuables such as jewellery, watches and other small articles of a similar nature and documents of title found upon any Council Establishment and not claimed within seven days shall, unless decided by the Chief Financial Officer, be deposited with the Chief Financial Officer for safe custody. After a period of six months the Chief Financial Officer is authorised to dispose of the items.

FINANCIAL REGULATION TWENTY: INSURANCE

20.1 The Strategic Director – Corporate Resources in consultation with the Assistant Director for Finance and Democracy & Governance shall assess risks and affect all insurance cover and negotiate all claims in consultation with other employees as appropriate.

20.2 The Assistant Directors for Finance and Democracy & Governance shall annually, or at such other period considered necessary, review all insurances in consultation with other employees as appropriate.

20.3 Employees shall give prompt notification to the Assistant Director – Finance of all new risks, properties or vehicles and of any alterations or changes in risk which may affect existing insurances.

20.4 Employees shall immediately notify the Finance Manager – Treasury in writing of any loss, liability or damage or any event likely to lead to a claim.

20.5 The Council shall include all appropriate employees in suitable fidelity guarantee insurance.

20.6 Employees shall consult the Assistant Directors for Finance and Democracy & Governance in respect of the terms of any indemnity, which the Council is requested to give.

20.7 When requested, employees and Members claiming car mileage must produce, a current driving licence, MOT certificate if needed and copies of insurance documents to prove the existence of adequate cover against any liability of the Council arising out of using the vehicle for official journeys.

FINANCIAL REGULATION TWENTY-ONE: GRANTS TO OTHER ORGANISATIONS

21.1 The procedure for allocating grants shall be decided by Cabinet or relevant Portfolio Holder.

21.2 Directors or budget holders must make sure that:

- The organisation receiving the money spends it in accordance with the grant approval;
- The performance of the organisation is monitored during the year in accordance with any grant conditions.

21.3 Applicants for grant aid must supply all information requested including financial records before grants can be paid.

FINANCIAL REGULATION TWENTY-TWO: MONEY LAUNDERING

22.1 Local authorities and their staff are subject to the full provisions of the Terrorism Act and may commit most of the principal offences under the Proceeds of Crime Act 2002 (the POCA). Public authorities are not, however, legally obliged to apply the provisions of the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 and the Money Laundering Regulations 2007.

Nevertheless, as responsible public bodies, they have a responsibility for the proper conduct of public business so should embrace and adopt the underlying principles of the money laundering legislation and regulations (see the NBBC Anti Money Laundering Framework document for more detailed information)

FINANCIAL REGULATION TWENTY-THREE: COMMUNITY RIGHT TO CHALLENGE

23.1 The Localism Act 2011 introduced a right for Parish Councils, community and voluntary bodies, charitable trusts and 2 or more local Council employees to submit an Expression of Interest in taking over the provision of a service on behalf of the Council. Where a valid expression of interest is received, the Council is required to undertake a procurement exercise for that service, which may lead to the Council awarding a contract for the provision of that service.

An Expression of Interest must be dealt with according to the Policy approved by Cabinet.

Financial Accounting Instruction L – Community Right to Challenge Policy and Guidelines

FINANCIAL REGULATION TWENTY-FOUR: SUBSIDY CONTROL

24.1 Subsidy is where a public authority provides support to an enterprise that could give them an economic advantage over competitors. The Subsidy Control Act 2022 is a law that sets out the UK's prevailing subsidy control rules.

24.2 The regulations are designed to be flexible, to allow public authorities to support business growth and innovation, promoting competition and investment in the UK. Under the regulations, public authorities can deliver subsidies that are tailored to local needs to deliver their strategic priorities.

24.3 It is essential that subsidy rules are considered when working with organisations and there is guidance available to support officers. The Assistant Director – Democracy & Governance will support with advice where required.

<https://www.gov.uk/government/publications/uk-subsidy-control-statutory-guidance>

Financial Accounting Instruction M – Subsidy Control

DEFINITIONS

Accounting code

A code, which we use to allocate income and spending to cost centres and budget heads on the financial system.

Accounting system

All procedures, which manage, record, control and protect assets, finances and any other Council interest.

Agreed price

The cost of work or services that is agreed with a supplier before the work is done.

Budget head

A particular type of income or revenue cost within a cost centre budget, such as salaries.

Capital expenditure

Money spent on schemes in the capital programme, which is not charged, to revenue routine costs.

Central purchasing contract

A contract arranged centrally for the procurement of specific goods and services.

Contract sum

An amount usually agreed in writing for work or services.

Cost Centre

A unit within a service which is separately costed

Internal Control

The part of the procedure within a system, which prevents loss, error, abuse and fraud.

Key Contract

A contract with significant importance to the operation of the Council to ensure provision of front-line services.

Key Contractor

A key contractor is deemed 'key' if the immediate removal of the contractor lead to significant risk to public health or our statutory safeguarding duties, significant financial loss to the authority, reputational damage to the authority, difficult and/or prohibitively expensive to find a replacement contractor.

Management Team

Comprises of the Chief Executive and Strategic Directors

Money

Includes cash, cheques, postal orders and other kinds of payment.

Money Laundering

Any activity used to conceal or disguise the nature, source, location, ownership or control of currency or assets. It is most often an attempt to hide the proceeds of dishonest or criminal activity and to try and give the impression that the income is from a legitimate source.

Revenue expenditure

Costs shown in the budget, which are paid by cost centres in a particular year, such as salaries.

Stock

Items that can be sold.

Suppliers

People or firms doing work for us or selling us goods.

Tender/Quotation

A stated price in writing from a person or firm for doing work or services for the Council.

FINANCIAL ACCOUNTING INSTRUCTIONS – Index

A Virement Request Procedures.doc

B Retention of Financial Documents.doc

C Financial Checks

D Official and Electronic Orders and Commitment Accounting.doc

E Payment by Credit or Debit Card.doc

F Payment by Direct Debit.doc

G Taxation.doc

H Petty Cash Accounts.doc

I Debtor Accounting Procedures.doc

J Security Limits and Controls.doc

K Disposal or Write-off of Stock.doc

L Community Right to Challenge.doc

M Subsidy Control

AGENDA ITEM NO. 11b

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit & Standards – 2nd July 2024

**From: Finance Manager – Treasury
Assistant Director - Finance**

Subject: Treasury Management 2023/24 – Year End Review

1. **Purpose of Report**

1.1. The Council is required through the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) to report to Council an annual review.

1.2. This report sets out the Council's treasury position as at 31st March 2024 and therefore any decisions made after this date are not reflected in this report.

2. **Recommendations**

2.1. That the annual report is noted and recommended to Council for approval.

3. **Background**

3.1. The Council operates a balanced budget, which broadly means cash raised during the year will meet cash expenditure. Part of the purpose of treasury management operations is to ensure cashflow is planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity to meet cashflow before considering optimising investment returns.

3.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3. Accordingly, Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice as: "The management of the local authority's borrowing, 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."

3.4. This report has been written in accordance with the requirements of the CIPFA's Code of Practice for Treasury Management. The primary requirements of the Code are as follows:

- i.) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- ii.) Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
- iii.) Receipt by the full Council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a mid-year review report and an annual report (this report) covering activities during the previous year.
- iv.) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- v.) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit & Standards Committee.

3.5. This year-end report has been prepared in compliance with the Code and covers the following:

- An economic update for the last six months of 2023/24
- A review of the Treasury Strategy & Budgetary Framework
- The Council's capital expenditure (prudential indicators)
- A review of compliance with Treasury and Prudential Limits for 2023/24
- A review of the Council's investment portfolio for 2023/24
- A review of the Council's borrowing strategy for 2023/24
- A review of any debt rescheduling undertaken during 2023/24

4. Economic Update for Q3-4 of 2023/24

4.1. The Council's in-house team of experienced finance staff monitor and maintain the Council's Treasury Management activity in line with the Council's Strategy. The Council employs Link Group as its treasury management advisor and officers hold regular meetings with them concerning existing and future potential economic circumstances regarding both investments and short/long-term borrowing.

4.2. The fourth quarter of 2023/24 saw:

- UK GDP has increased by 0.6% higher than the average global GDP increase of 0.4% in the same period
- Subdued Economic Activity especially in consumer facing businesses, continuing the trend from last year.
- CPI inflation ease to 3.8% y/y in March, having been 7.8% in April, but domestic price pressures are showing little sign of abating in the near-term.
- The unemployment rate reduced to 3.9% in January 2024 (from 4.3%) returning to pre-pandemic rates. There has been a decrease in short term unemployment but an increase in long-term (over 1 year) unemployment.
- The average weekly earnings, including bonuses in the UK, rose by 5.6% y/y to in the three months to January, a reduction from the high of 8.5% y/y in July.
- Bank Rate stayed at 5.25%. However, the Bank of England Monetary Policy Committee (MPC) inferred that rate drops may be expected in the upcoming meetings.

4.3. The consequence of the above is that PWLB rates have decreased since our last update. PWLB 5 to 50 years Maturity Rates are, generally, in the range of 4.9% to 5.2%. This means whilst it is cheaper to borrow than 6 months ago, the rates are still fairly high compared to previous years. With future Bank Rates drops expected, future reductions in the PWLB rates are being forecast.

4.4. We view the markets have now built in already, nearly all the effects on gilt yields of the likely long-term decreases in Bank Rate and the improving inflation outlook. But the situation is still very volatile, and as previously shown, political changes can quickly change our financial position.

4.5. There is also a consensus of opinion on the outcome of financial decisions by central government and the Bank of England. This was shown by the 8-1 decision to hold the Bank Rate at 5.25% in March with the other member recommending to decrease the Bank Rate to 5.0%. This was mainly due to a consistent growth throughout the globe and the fact that inflationary pressures in the US and Euro zone starting the abate.

4.6. Overall, there are predicted improvements to the UK economy, but the speed of those changes may take longer than previously expected.

5. Review of the Treasury Strategy & Budgetary Framework

5.1. The Treasury Management and Budgetary Framework was approved by Cabinet on 8th February 2023 and recommended to Council on 13th February 2023. Having reviewed the strategies there are no recommended policy changes to the Framework at this point in the year.

6. The Council's Capital Expenditure (Prudential Indicators)

6.1. This part of the report is structured to update:

- The Council's capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow

6.2. The Council's Capital Expenditure Plans (Estimate of Capital Expenditure Prudential indicator)

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The original budget was approved in February 2023 with a revised update after the year-end outturn approved in September 2023. The actual figures will be part of the upcoming Statement of Accounts for 2023/24

Capital Expenditure by Portfolio	2023/24 Original Budget £m	2023/24 Revised Budget £m	Increase/ (Decrease) in Budget £m
Business & Regeneration	52.174	55.246	3.071
Finance & Corporate	0.265	0.290	0.025
Housing & Communities	6.236	6.689	0.453
Public Services	23.434	23.746	0.312
Planning & Regulation	0.000	0.000	0.000
Health & Environment	0.000	0.000	0.000
Miscellaneous Services	0.100	0.100	0.000
Housing Revenue Account	24.419	25.848	1.429
Total Capital Expenditure	106.628	111.919	5.290

6.3. Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position

over the period, which is termed the Operational Boundary. Changes in the CFR occur as part of capital financing transactions:

- Increases when Prudential Borrowing is used to fund the capital programme.
- Increases/decreases where land/property is transferred between the General Fund and the Housing Revenue Account
- Decreases when funds are applied to outstanding debt. There is a statutory requirement for the General Fund to charge a Minimum Revenue Provision to its revenue account, however, there is no requirement for the HRA to be charged with such a charge but if a charge is made it is classed as a Voluntary Revenue Provision for the repayment of principal.

Financing of capital expenditure £m	2021/22 Actual £m	2022/23 Actual £m	2023/24 Actuals £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Receipts	3.66	0.07	0.36	1.48	1.51
Capital Grants	11.64	14.92	17.21	18.73	7.60
Capital Reserves/Revenue	17.72	1.56	12.12	11.87	11.14
Total Non-Borrowing	33.02	16.55	29.69	32.08	20.25
Net Financing need for the year	6.21	6.05	12.21	82.71	9.00
Total Capital Programme	39.23	22.60	41.90	114.79	29.25

The Operational Boundary is approximately set to the Capital Financing Requirement to allow the externalisation of the internal borrowing position should the economic situation suggest that the optimum time is during the remainder of this financial year.

7. Review of Limits to Borrowing

7.1. Prudential Indicator – Capital Financing Requirement

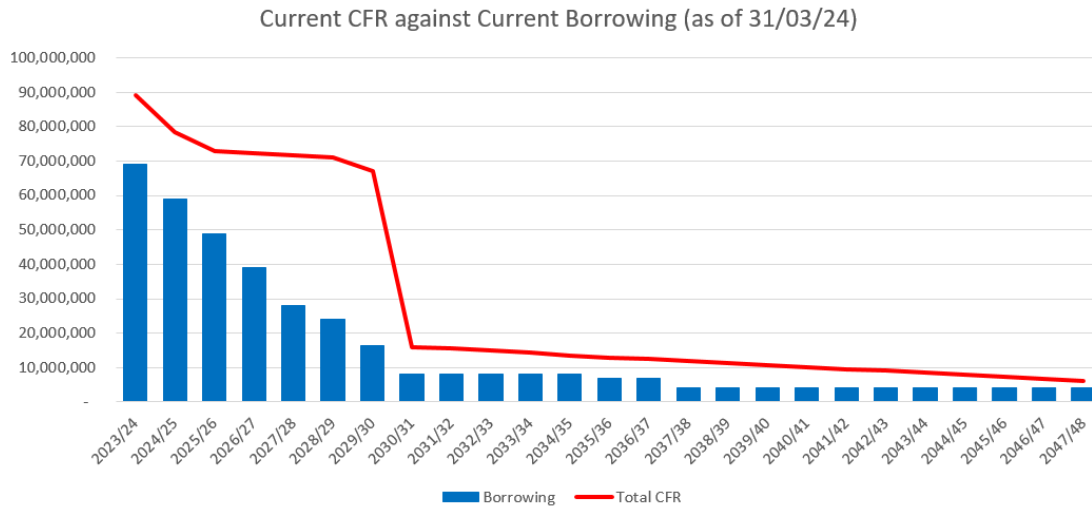
We are on target to achieve the original forecast Capital Financing Requirement (CFR).

£m	2021/22 Actual	2022/23 Actual	2023/24 Actuals	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
Non-HRA	16.33	20.74	23.37	98.39	97.78
Housing	83.47	64.31	65.81	64.31	68.31
Total CFR	99.80	85.05	89.18	161.31	164.70
Movement in CFR	5.73	(14.75)	4.13	72.13	3.39

Movement in CFR Represented by					
Net Financing need for the Year	6.21	6.05	12.21	82.71	9.00
Less MRP and other financing movements	(0.48)	(20.01)	(8.08)	(10.58)	(5.61)
Movement in CFR	5.73	(14.75)	4.13	72.13	3.39

The above chart shows the CFR against the current Borrowing. As the CFR line is higher than the borrowing total, this means the Council is under-borrowed. This means that the CFR has not been fully funded with external debt as internal cash balances have been used temporarily to finance the capital programme. In foregoing lost investment income, the Council benefits by saving on the current high interest rates.

The Chart also shows that there is considerable room for extra loans to be taken to fund the current capital programme as well as any future projects. The Council will need to manage these loans to ensure we ensure the council doesn't enter an overborrowing position, but spreading out the repayment dates as well as having a continuing capital programme will ensure the council isn't expected to enter this position. The CFR figure is based on completed Capital projects, so if we complete more projects, the CFR figure will increase to represent the amount the council should payback each year.



7.2. Changes to the Prudential Indicators for the Ratio of Financing Costs to the Net Revenue Stream

This indicator identifies the cost of capital (borrowing costs and other long-term obligations net of investment income) against the net revenue streams (amounts due from government grants and taxpayers and housing rents).

	2023/24 Original Budget Estimate	2023/24 Current Forecast
General Fund	3.5%	-3.7%
HRA	8.1%	6.6%

The negative General Fund indicator is mainly due to the interest on the Council's investments being much higher than budgeted due to the rising interest rates. It was also lowered by the Council taking out fewer new loans than budgeted, and the Council not having many financing leases under the current accounting rules. Under IFRS16, all council leases would likely be included in this figure which would increase the cost to finance our debts. Whilst a negative indicator is good news, the extra inflationary costs to revenue means that this saving cannot be used to fund extra capital works, and higher interest rates means that any new loans will greatly increase this figure.

7.3. Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24 Original Estimate £m	Current Position at of 30 September 2023 £m	2023/24 Forecast Estimate for 31 March 2024 £m
Borrowing	122.21	56.71	70.31
Other Long-Term Liabilities	-	-	-
Total Debt	122.21	56.71	70.31
CFR (End year position)	172.76	172.76	90.57

The amount that Council Officers are allowed to borrow is limited by the Authorised Limit which is set and revised by Members. This represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit is based on the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2023/2024 Original Indicator £m
Borrowing	188.76
Other Long-Term Liabilities	4.00
Total	192.76
Operational Limit for External Debt	
Borrowing	170.76
Other Long-Term Liabilities	2.00
Total	172.76

No changes to the current Authorised Limit or Operation Limit for External Debt were required in 2023/24.

8. The Council's Investment Portfolio as at 31st March 2024

8.1. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, in accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

8.2. A list of all investments held as at 31st March 2024 is shown below:

Counterparty	Amount Invested	Deposit Period	Maturity Date	Interest Rate
Fixed Term Deposit:				
Cheshire East Council	£8.0m	42 days	Apr 2024	6.25%
London Borough of Southwark	£5.0m	64 days	May 2024	6.55%
Total Fixed Term Deposits	£13.0m			6.37%
Property Funds				
CCLA Local Authority Property Fund	£2.0m	N/A	N/A	4.11%
Total Property Funds	£2.0m			4.11%
Money Market Funds:				
Goldman Sachs Sterling	£3.0m	N/A	N/A	5.14%
Federated Prime Rate	£8.0m	N/A	N/A	5.24%
Total Money Market Funds	£11.0m			5.21%
Instant Access/Call Accounts				
Lloyds Bank (Current Account)	£2.6m	Overnight	N/A	5.15%
Total Instant Access	£2.6m			5.15%
Total Investments	£28.6m			5.65%

8.3. Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

9. The Council's Debt Position at 31st March 2024

9.1. The Council's borrowing activity for the financial year can be summarised as follows:

- 2 new loans for the HRA were taken out. No new loans were taken out for the General Fund.
- The two new loans were taken out with the PWLB with the following terms:
 - £7.5m for 5.5 years at 4.30%
 - £8.5m for 6.5 years at 4.28%
- £7.5m of debt matured
- £72.705m of debt is outstanding at 31st March 2024 at an average rate of 3.51%.

9.2. Due to the high interest rates, the Treasury Team is minimising the amount of new external debt that the Council is undertaking. Any loans taken out will be done to ensure a smooth debt maturity profile, and not necessarily at the lowest rate. This is to assist with future cashflows

9.3. The Council's Debt Position at 31st March 2024 is shown below:

Borrowing	2023/24 Opening Balance	2023/24 Closing Balance
	£m	£m
General Fund		
PWLB	6.75	6.75
Market LOBO	2.00	2.00
HRA		
PWLB	55.46	63.96
Total	64.21	72.71

10. Debt Rescheduling

10.1. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates. No debt rescheduling has therefore been undertaken to date in the current financial year.

10.2. The Council is currently breaching their Debt Maturity limits when the full Debt of both the General Fund and the HRA is considered. This is due to HRA debts that were transferred from Central Government to the Council in 2011/12 which are expecting to mature in the next 5 years. If only General Fund debt is considered, the Council is not currently breaching their Debt Maturity limits.

10.3. Part of the reason for the breach has been the use of internal borrowing over the last few years. Whilst making financial sense, this has led to the breach as the Council isn't borrowing more long-term debt, and therefore the percentage of debt that is maturing shortly is higher. As the CPR figure earlier showed, the Council has more capacity for debt and therefore this is not so much a concern.

The Council is expecting to use external borrowing later this financial year/the start of 2024/25, which should assist with correcting the Debt Maturity breach, even if the HRA figures are included.

Total Debt Maturity Profile				
Debt Maturity within	£m	% of Total Debt	% of Running Total Debt	% for Lower and Upper Limit of Debt
Under 6 months	10.0	13.8%	13.8%	0%-30%
1 Year	0.0	0.0%	13.8%	0%-35%
2-5 Years	38.7	53.2%	67.0%	0%-50%
5-10 Years	16.0	22.0%	88.9%	0%-75%
10 Years and Over	8.0	11.0%	100.0%	0%-100%

Total Debt	72.7	100.0%	100.0%	
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10.4. Reviewing just the General Fund Debt, there is no breach of the Debt Maturity limits. There is also room for capital loans in the 5-10 year region if needed, but this would have to be evaluated over the Council's priorities and the expected lifespan of the asset linked to the capital spend.

General Fund Maturity Profile				
Debt Maturity within	£m	% of Total Debt	% of Running Total Debt	% for Lower and Upper Limit of Debt
Under 6 months	0.00	0.0%	0.0%	0%-30%
1 Year	0.00	0.0%	0.0%	0%-35%
2-5 Years	3.75	42.9%	42.9%	0%-50%
5-10 Years	0.00	0.0%	42.9%	0%-75%
10 Years and Over	5.00	57.1%	100.0%	0%-100%
Total Debt	8.75	100.0%	100.0%	

11. Conclusion

11.1. That Cabinet is recommended to note the Treasury Management Year-End report

12. Appendices (if none, state none)

12.1. None

13. Background Papers (if none, state none)

13.1. None

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit and Standards Committee 2nd July 2024

From: Finance Manager - Treasury
Assistant Director - Finance

Subject: Review of Treasury Management Practices (TMPs)

1. Purpose of Report

1.1 To provide Audit and Standards Committee with the reviewed Treasury Management Practices (TMPs) for approval.

2. Recommendations

2.1 That the revised TMPs are noted and recommended to Council for approval.

3. Review Process

3.1 The Treasury Management Practices are subject to review every year unless significant changes are identified in the interim period. Approval of reviews / significant changes are required by this committee.

4. Treasury Management Practices

4.1 The revised document is attached as Appendix A. This is a full rewrite and should be treated as a new document. This is due to the last full TMPs review being in 2010/11, with updates of specific TMPs being included in the annual Treasury Management Strategy.

4.2 The previous full TMPs document (2010/11) is attached as Appendix B. In addition, TMP1 was updated and approved as part of the Treasury Management Strategy in February 2024 and this is attached at Appendix C.

4.3 The Key Changes are:

- A change in the underlying Template used, changing wording or the style of the TMPs. This includes removing officer names and replacing with positions, and simplifying TMP1 to meet current standards.
- Changes to Credit worthiness of counterparties to reflect the change in Treasury Management Advisors
- Updates to relevant laws or official guidance being referenced
- Increases in counterparty limits to match those as agreed per the Treasury Management Strategy that Council has previously approved (from £4m in 2010/11 to £10m in 2024/25)
- Updated Council duties and organisational chart to reflect the current Council hierarchy
- Updated Use of External Providers with current contracts

- Added an Appendix on the Council’s Environmental, Social and Governance Risk Management with regards to Treasury Management

5. Track Changes

5.1 Due to the number of changes, the committee is advised that “track changes” are not shown on Appendix A, with the previous version provided as Appendix B.

6. Appendices

6.1 Appendix A: Treasury Management Practices 2024/25.

6.2 Appendix B: Treasury Management Practices 2010/11.

6.3 Appendix C: Approved TMP1 February 2024

ANDREW PILLOW
LIAM BROWN

Appendix A

TREASURY MANAGEMENT PRACTICES

**Nuneaton and Bedworth Borough Council
2024/25**

Contents

TMP 1 Risk Management.....	5
TMP 2 Performance Measurement	8
TMP 3 Decision Making and Analysis.....	10
TMP 4 Approved Instruments, Methods and Techniques	12
TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements	13
TMP 6 Reporting Requirements and Management Information Arrangements.....	17
TMP 7 Budgeting, Accounting and Audit Arrangements.....	20
TMP 8 Cash and Cash Flow Management.....	21
TMP 9 Money Laundering	22
TMP 10 Training and Qualifications	24
TMP 11 Use of External Service Providers	25
TMP 12 Corporate Governance.....	27
Appendix 1. Environmental, Social and Governance risk management.....	28

TMP 1 Risk Management

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society This category covers bodies with a minimum Short-Term rating of AA- (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

In accordance with the Code, the Council has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies. These criteria are a maximum of £10m per organisation and with organisations that meet the Treasury Management Staff's

Non-specified investments – are any other type of investment (i.e., not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum

limits to be applied are set out below. Non-specified investments would include any sterling investments with: -

	Non-Specified Investment Category	Limit (£ or %)
a.	<p>Supranational Bonds greater than 1 year to maturity</p> <p>(a) Multilateral Development Bank bonds - These are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g., European Reconstruction and Development Bank etc).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g., National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings</p> <p>£10m</p>
b.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£10m
c.	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£2m
d.	<p>Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £100m, but will restrict these types of investments to under 1 year.</p>	£2m
e.	<p>Any Bank or Building Society that has a minimum long-term credit rating of AA-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).</p>	£10m
f.	<p>Any Non-Rated Subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from a parent company, the investment must be under 1 year, and the subsidiary must be UK based.</p>	£2m
g.	<p>Share Capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.</p>	£2m
h.	<p>Other fund: The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Council will seek guidance on the status of any fund it may consider using and will update Cabinet before any use of a new style of fund.</p>	

NOTE 1. This Council will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

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 Treasury team
- b. reviews with our treasury management consultants
- c. annual review after the end of the year as reported to full council
- d. Quarterly monitoring reports to Cabinet
- e. comparative reviews
- f. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic reviews during the financial year

The Finance Manager - Treasury holds a treasury management review meeting with the Treasury team every month to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include :

- a) Total debt (both on-and off balance sheet) including average rate and maturity profile
- b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

2.1.3 Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the Investment and Debt portfolios. This report contains the following: -

- a. total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement
- b. borrowing strategy for the year compared to actual strategy
- c. whether or not a decision was made to defer borrowing or to borrow in advance
- d. comment on the level of internal borrowing and how it has changed during the year
- e. assumptions made about interest rates
- f. investment strategy for the year compared to actual strategy
- g. explanations for variance between original borrowing and investment strategies and actual
- h. debt rescheduling done in the year
- i. actual borrowing and investment rates available through the year
- j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives
- k. the Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together with details of any remedial action taken. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem.
- l. the Report shall include details of any review of long-term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy.
- m. compliance with Prudential and Treasury Indicators
- n. other needed information

In addition, quarterly reports will be submitted to the Council each year to provide updates on the above.

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

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing (based on rate of investment)
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year
- Debt portfolio compared to the debt liability benchmark

2.2.2 Investment.

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

- Average daily SONIA rate
- Backward-looking compounded SONIA (based on the average rate to maturity. 7-days for short term, 3/6/9 months etc if longer).

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 a 3 year basis with the option to extend for 1 year twice, if approved by the Cabinet. The process for advertising and awarding 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 every 5 years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

2.3.3 Money-broking services

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

An approved list of brokers will be established which takes account of both prices and quality of services.

2.3.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants and separate leasing advisory consultants.

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.

TMP 3 Decision Making and Analysis

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

3.1.1 Records to be kept

The Treasury section has a computerised system in which all investment and loan transactions are recorded. Full details of the system are covered in the user manual. The following records will be retained:

- Daily cash balance forecasts
- Money market rates for the Council's MMFs
- 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

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- 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 actuals 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.

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 to ensure that its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
- b) Less detailed evaluation will also be carried out over a longer period of 10 years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term.
- c) not borrow to invest primarily for financial return.
- d) not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.
- e) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council.
- f) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- g) undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.
- h) evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- i) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- j) 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.
- k) ensure that treasury management decisions are made in accordance with good professional practice.

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;
- c) ensure that any long-term treasury investment is supported by a business case.

TMP 4 Approved Instruments, Methods and Techniques

4.1 Approved Instruments, Method and Techniques

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

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy.

The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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 treasury management strategy
- approval of capital strategy

(ii) Cabinet

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- 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 Standards 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.

5.3 Treasury Management Organisation Chart



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 Strategic Director – Corporate Resources. This person 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 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 officers in the Treasury Management Organisation Chart.
- 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 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 UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

5.4.2. The Treasury Management Team

The responsibilities of the Assistant Director of Finance is to act as the deputy responsible officer for the council when the responsible officer is unavailable. If the Responsible officer is available to undertake their duties, the Assistant Director of Finance will have the same level of responsibility (with regards to Treasury Management) as the Finance Manager – Treasury (see below).

The responsibilities of the Finance Manager - Treasury 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 opportunities for improved practices
- h) opportunities for improved practices

The Finance Manager – Treasury requires at least 1 year of professional experience in Financial Markets (including knowledge of transactions or services envisaged). If they do not have this experience, they will need advice from Treasury Advisors before undertaking any new investments or supervision from a member of the Treasury Management Organisational Chart who has the relevant experience.

The treasury management team additionally includes the following persons: -

Financial Accountant

The Financial Accountant has the same limits on investments as the Finance Manager – Treasury, and will require authorisation from a more senior role to undertake new debt arrangements. They will also require at least 1 year of professional experience in Financial Markets, or supervision from another member of the Treasury Management Organisational Chart which has the relevant experience.

Assistant Accountant(s)

The Assistant Accountants can process investments with the deals being authorised by the Financial Accountant or more senior member of staff within the Treasury Management Organisation Chart above.

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 the 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

In the case of the Finance Manager – Treasury and the Financial Accountant both being absence, the Strategic Director – Corporate Resources and Assistant Director for Finance can deal for the Council. If secondary approval is needed, other Strategic Directors or the Chief Executive can provide this approval.

5.6 Dealing Limits

There is no specific dealing limit by post, but limits on dealing is within the TMSS.

5.7 List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

5.8 Policy on Brokers' Services

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

5.9 Policy on Taping of Conversations

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

5.10 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 through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

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

5.11 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 Online Banking system to be completed by 5pm on the day of transfer.

5.12 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.

5.13 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

- a) Annual reporting requirements before the start of the year: -
 - review of the organisation's approved clauses, treasury management policy statement and practices
 - **treasury management 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.
 - **capital strategy** to cover the following: -
 - i. give a long-term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
 - ii. an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
 - iii. The authorities risk appetite and specific policies and arrangements for non-treasury investments
 - iv. Schedule of non-treasury investments
- b) Mid-year review
- c) Quarterly monitoring
- d) 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.

6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set 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 of value and time for individual counterparties and groups
- i) Country limits
- j) Maximum value and maximum periods for which funds may be prudently invested
- k) Levels of cash balances and investments over the same time period (as a minimum) as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
- l) Interest rate outlook
- m) Budget for investment earnings
- n) A review of the holding of longer-term investments
- o) Use of a cash fund manager (if applicable)
- p) 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 Quarterly and Mid-year reviews

The Council will review its treasury management activities and strategy on a quarterly and six monthly basis. The mid-year review will go to Full Council. 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 and prudential indicators

The quarterly review will monitor the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring.

6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented 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 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, approved policies and practices, the member approved treasury management strategy and on statutory/regulatory requirements
- f) monitoring of treasury management indicators

6.8 Management Information Reports

Management information reports will be prepared every month by the Finance Manager - Treasury and will be presented to the Strategic Director – Corporate Resources.

These reports will contain the following information: -

- a) a summary of transactions executed 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.

6.9 Publication of Treasury Management Reports

Reports made to Audit & Standards Committee and Council will be published as part of the meetings agenda.

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 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Finance Manager - Treasury 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 Finance Manager - Treasury 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.

7.3 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 Financial Systems
- 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.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Strategic Director – Corporate Resources whilst a quarterly budget monitoring report goes to Cabinet. 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.

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 from the previous years' cash flow records, adjusted for 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.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

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 daily basis by the Treasury Management Team on the Council's finance system.

8.3 Payment Scheduling and Agreed Terms of Trade with Creditors

Our policy is to pay creditors within 30 days of the invoice date, and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 14 days.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Assistant Director for Finance is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on a monthly basis to assist in updating the cash flow models.

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 cashiers to deposit in the Council's banking accounts. The cashiers will notify the Treasury Management Team by the following morning of cash and cheques banked the previous day so that the figures can 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 responsible officer.

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 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts 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 2012, 2015 and 2017. 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 Corporate Fraud Officer

- 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 Head of Audit and Governance 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 FCA website on www.fca.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 FCA register can be accessed through their website on www.fca.gov.uk.

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

TMP 10 Training and Qualifications

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements, including a knowledge and skills schedule, are detailed in the schedule to this document.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional 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 Finance Manager – Treasury 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 Finance Manager - Treasury 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 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, 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. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.5 Member training records

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

10.6 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.

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 Lloyds Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
- c) The branch address is:
17/23 Coventry Street, Warwickshire CV11 5TD
Tel :- 0345 602 1997
- d) Contract commenced 01/11/2022 and runs for 7 years until 31/10/2029.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments due Monthly
- g) Early Termination details:
Following a review of the pricing table, if Lloyds changes the terms and conditions and an agreement cannot be reached, then the Council can cancel immediately. Otherwise if the Council cancels the contract in advance, the full remaining value of the contract is due.

11.1.2 Money-Broking Services

The Council will 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. The performance of brokers is reviewed by the Finance Manager - Treasury every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Assistant Director - Finance. A minimum of two brokers will be available at any one time to ensure value for money.

Broker 1
King and Shaxon Limited
First Floor, 155 Fenchurch Street LONDON EC3M 6AL
0207 426 5950
Authorised and Regulated by FCA (FCA No: 823315)

Broker 2
Tradition (UK) Ltd
Beaufort House, 15 St Botolph Street, London, EC3A 7QX
Authorised and Regulated by FCA (FCA No: 139200)

Broker 3
BGC Sterling Treasury
5 Churchill Place, London, E14 5HU
0207 894 7742
Authorised and Regulated by FCA as part of BGC Brokers L.P (FCA No 454814)

Broker 4
Imperial Treasury Services
5 Port Hill, Hertford, SG14 1PJ
01992 945550
Imperial Treasury Services Ltd is an Appointed Representative of Frank Investments Limited a firm which is authorised and regulated by the FCA (FCA No. 627697)

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 by the Finance Manager – Treasury every year to check whether performance has met expectations.

- a) Name of supplier of service is Link Group, Treasury solutions. Their address is 65 Gresham Street London EC2V 7NQ
- b) Regulatory status: investment adviser authorised by the FCA
- c) Contract commenced 01/10/2022 and runs for 3 years ending on 30/09/2025.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2

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 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 Policy Statement
 - Treasury Management Strategy Statement
 - Annual Investment Strategy
 - Minimum Revenue provision policy statement
 - Annual Treasury Review Report
 - Treasury Management monitoring reports (e.g. half yearly, quarterly)

 - Annual accounts and financial instruments disclosure notes
 - Annual budget
 - Year Capital Plan
 - Capital Strategy

 - Minutes of Council / Cabinet / committee meetings

 - Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

Appendix 1. Environmental, Social and Governance risk management

Policy on ESG issues

ESG is an area that CIPFA is still working on after the 2022 revised codes. In particular, work will be needed to coordinate the priority which needs to be given to issues of security, liquidity and yield (SLY) while also accommodating ESG principles as a fourth priority and principle to apply.

The assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical Treasury-type investments, is currently difficult to achieve. CIPFA, therefore, recommends authorities to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.

CIPFA does not expect that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

When drafting an ESG "policy", Councils will need to understand that anything too "broad" in its approach could have a material impact on potential counterparties, which could then limit diversification and / or security considerations in investment processes. Furthermore, Councils will also need to be clear that when choosing between two counterparties that pass all relevant "security" tests, that the additional implementation of an ESG policy may mean that a lower investment rate is achieved by choosing the counterparty that passes the council's ESG requirements.

Please note that these are examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties. The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties by Councils.

- **Environmental:** Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- **Social:** Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- **Governance:** Management structure, governance structure, group structure, financial transparency.

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations

challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.

At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.

In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.

In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

*With this in mind, we share a common vision **to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness.**"*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

This Council will not invest in companies whose core activities pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values e.g.:

- a. Human rights abuse (e.g., slave or child labour, political oppression)
- b. Activities that damage the environment by extraction of fossil fuels, destruction of habitat, or creation of pollutants
- c. Socially harmful activities (e.g., tobacco, gambling)
- d. Manufacture of weapons

If information is received that alerts the Council that a current investment is with a company whose cores activities pose risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values (even if the core activities have changed during the investment), the Council will aim to deinvest at the earliest possible opportunity from that company, and will not extend any current investments.

Nuneaton & Bedworth
Borough Council

TREASURY
MANAGEMENT
PRACTICES
(2010-11)

Contents

		Page
TMP 1	Treasury risk management	32
TMP 2	Performance measurement	49
TMP 3	Decision-making and analysis	51
TMP 4	Approved instruments, methods and techniques	54
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements	56
TMP 6	Reporting requirements and management information arrangements	62
TMP 7	Budgeting, accounting and audit arrangements	66
TMP 8	Cash and cash flow management	68
TMP 9	Money laundering	70
TMP 10	Training and qualifications	73
TMP 11	Use of external service providers	74
TMP 12	Corporate governance	77

TREASURY MANAGEMENT **PRACTICES**

TMP1 : RISK MANAGEMENT

General Statement

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

1.1 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 which 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.

1.1.1 Policy on the use of credit risk analysis techniques

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the Council.
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

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.

5. Credit ratings for individual counterparties can change at any time. The Assistant Director of Corporate Finance (Simone Donaghy) 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.

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

7. Maximum amounts to be placed in institutions or groups will be limited to £4 million per Fund

ie:-MMF, Guilts and Treasury Bills and Local Authority and Building Societies that satisfy our legislation.

	Limits	
A) Bank or Building Society with a Long Term Credit Rating of AAA, an Individual Rating of B/C and a Support rating of 3 (or equivalent)	5 yrs	£4m
B) Bank or Building Society with a minimum Long Term Credit Rating of AA-, an Individual Rating of B/C and a Support rating of 3 (or equivalent)	4 yrs	£4m
C) Bank with a minimum Long Term Credit Rating of A-, an	3 yrs	£4m

Individual Rating of B/C and a Support rating of 3 (or equivalent)		
D) Banks nationalised/part nationalised by high credit rated (sovereign rating AAA) countries (a)	Specified in Guarantee	£4m
E) An Eligible Institution eligible under the HM Treasury Credit Guarantee Scheme (c)	Specified in Guarantee	£4m
F) Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries (b).	Specified in Guarantee	£4m
G) The Councils own Banker - if it fails to meet basic criteria	Overnight	£2m
H) Building Society with a minimum Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent /if applicable) AND assets > £4bn	3 yrs	£4m
I) Building Society with a Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent/if applicable) AND assets < £4bn but > £1bn	2 yrs	£4m
J) Group Limits - Maximum investments in Institutions within the same financial group	As above for individual investment	£6m
K) Territory Limits - Maximum investments in Institutions within the same Country (Approx 15% of investment programme) Non- UK	As above for individual investment	£2m
L) Territory Limits - Maximum investments in Institutions within the same Continent (Approx 30% of investment programme) Non UK	As above for individual investment	£4m

- (a) **Nationalised/Part Nationalised Banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.
- (b) **UK banking system support package (implicit guarantee).** Please note that the UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a

£500bn support package. The Council will need to decide if we wish to authorise lending to those named banks on the basis of that implicit guarantee on local authority deposits placed with these eight banks or to rely on the credit ratings of the individual banks.

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

- . Abbey
- . Barclays
- . HBOS
- . Lloyds TSB
- . HSBC
- . Nationwide Building Society
- . RBS (including National Westminster Bank Plc)
- . Standard Chartered

(d) **Other countries.** The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems.

8. Investments will not be made with counterparties that do not have a credit rating in their own right
9. 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.
10. If appointed the Council's external fund manager(s) would adhere to the counterparty credit criteria and maximum individual limits set by the Council; however it is understood that the fund manager(s) may use a subset of the counterparty list so derived.

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 start of each financial day any estimated 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
An authorised overdraft at 1% over the prevailing Bank Base rate on sums overdrawn up to £500k.
- c. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market. There is no approved borrowing limit for short term debt.
- 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 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 Details of approved interest rate exposure limits
- 1.3.2 Trigger points and other guidelines for managing changes to interest rate levels
- 1.3.3 Upper limit for fixed interest rate exposure and
- 1.3.4 Upper limit for variable interest rate exposure

- Please refer to the annual Treasury Management Strategy Statement

1.3.5 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
The Council will 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.

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.

1.4.1 Approved criteria for managing changes in exchange rate levels

The Council will endeavour not undertake expenditure/income transactions in a currency other than sterling. If unavoidable in rare circumstances, the value of the transaction will be nominal and should therefore have nominal impact due to exchange rate level fluctuations.

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 over reliance 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 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 Audit Committee as part of quarterly reporting.

1.5.2. Projected Capital Investment Requirements

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

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

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 *and (in the case of authorities with an HRA), housing rent levels*. 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).

1.5.4 Capital Receipts Generated by the HRA

75% of capital receipts generated by RTB and other dwelling sales will be pooled together with 50% of capital receipts from the sale of land without buildings (net of capital allowances), i.e. paid to the Secretary of State, with the exception of 'qualifying disposals' (e.g. large and small scale voluntary transfers of housing to social registered landlords).

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.

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:

- 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
- 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
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- 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

1.6.2 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

In addition, it will make available on request the following: -

- a. the scheme of delegation of Treasury Management activities which is contained in The Councils Scheme of Delegation - May 2008 which states which officers carry out these duties
- b. the document which sets which officers are the authorised signatories.

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.

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

The responsible officer shall take appropriate action with the Council, the Chief Executive 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 Corporate Service Director(Gareth Owens); 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 Assisitant Director of Finance and Procurement; 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.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation 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 organisation 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.

Investment and borrowing transactions

- . A detailed register of all loans and investments is maintained in the Treasury Management In-house excel database system.
- . 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 Craig Pugh, Treasury and Technical Manager 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 Craig Pugh Treasury and Technical Manager.
- Contract notes for transactions carried out by the external fund manager(s) if used, will be received as executed and maintained.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The Cash flow and Treasury Management In-house excel database system prompts the Treasury Staff that money borrowed or lent is due to be repaid.
- 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 authorisation of all deals.
- Payments can only be authorised by Bank line and Authorised staff.
- The Treasury Management In-house excel database system can only be amended by approved Treasury Management staff (this is password protected)
- There is adequate insurance cover for employees involved in loans management and accounting.
- If used Capital and interest withdrawals and capital injections in respect of monies managed by external fund managers could only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The Treasury system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.
- If using external fund managers, the valuations and investment income statements that would be received monthly from the Council's fund managers will be checked and retained for audit inspection. The authority will ensure that the external funds we invest in, are accounted for in accordance with proper accounting practices

- We will comply with the requirements of SORP (pre 1st April 2010 FRS 26) and IFRS Code (post 1st April 2010 IAS 39) and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Income and Expenditure Account

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 Treasury Management In-house excel database system.
- The Treasury Management In-house excel database system automatically calculates periodic interest payments of PWLB and other long term loans. 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 and the Treasury Management In-house excel database system.

1.7.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

Craig Pugh has access to Servers/ Systems

As well as via the Citrix portal should access to the building be denied.

Ref:- Access to the Bank line system can be accessed via the Internet and used remotely.

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 £5m for named officers and £1m for other officers for any one event with no excess.

Officials 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 £1m for any one event with an excess of £1,000 for any one event.

Business Interruption

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

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 its self 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.)

Currently not used, however, if considered appropriate they would be controlled through setting limits on investment instruments where the principal value can fluctuate. The limits would be determined and set through the Annual Investment Strategy (and would form part of the Annual Treasury Management Strategy Statement).

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A Local Authority, Parish Council or Community Council.
4. Pooled investment vehicles (such as Money Market Funds (MMF's)) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).
6. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes and/or is part or wholly nationalised by that Government. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

For category 4 this covers pooled investment vehicles (such as MMF's) rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with a minimum Short Term rating of F1, Individual Rating of C and Support rating of 3 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to limit the time for a category 5 deposit to 364 days and a monetary limit of £4m per body.

NON-SPECIFIED INVESTMENTS:

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

All Non Specified Investment Categories		Comment
1	<p>Supranational Bonds greater than 1 year to maturity</p> <ul style="list-style-type: none"> • Multilateral development bank bonds – These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European 	<p>Would not use due to size of investment portfolio limiting benefit to authority.</p>

All Non Specified Investment Categories	Comment
<p>Investment Bank etc.).</p> <ul style="list-style-type: none"> • A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) <p>The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	
<p>2 Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (1) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	
<p>3 A body which has been nationalised/part nationalised by high credit rated (sovereign rating AAA) countries and provided with a Government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.</p>	
<p>4 A body which is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13th October 2008. The Credit Guarantee Scheme forms part of the Government's measures to ensure the stability of the financial system and protect ordinary savers, depositors, businesses and borrowers, by; a) providing sufficient liquidity in the short term, b) make available new capital to UK banks and Building Societies to strengthen their resources c) ensure the banking system has the funds necessary to maintain lending in the medium term.</p>	
<p>5 Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries.</p>	
<p>6 The Council's Own Banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.</p>	
<p>7 Any Bank or Building society that has a minimum long term credit rating of A- or above, or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).</p>	
<p>8 Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.</p>	<p>Unlikely to use due to size of portfolio and high risk associated. Also requires additional approval as</p>

All Non Specified Investment Categories	Comment
	deemed as capital expenditure.

Within categories 3, 4, 5 and 6, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. All investments will be made in sterling to eliminate exchange rate risk.

TMP2 : BEST VALUE AND PERFORMANCE MEASUREMENT

The Borough Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.

The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

2.2 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating Treasury Management decisions:

- g. monthly / quarterly reviews carried out by the Treasury Management team;
- h. reviews with our Treasury Management consultants;
- i. annual review after the end of the year as reported to full Council;
- j. half yearly / quarterly / other monitoring reports to committee / full Council;
- k. comparative reviews;
- l. strategic, scrutiny and efficiency value for money reviews.

2.1.1 Periodic reviews during the financial year

The Treasury Team Manager reviews actual activity against the Treasury Management Strategy Statement and cash flow forecasts on a monthly basis.

This will include :

- c) Total debt including average rate and maturity profile;
- d) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our Treasury Management consultants

The Treasury Management team holds reviews with our consultants Annually to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt / investment portfolios. This report contains the following: -

- o. total debt and investments at the beginning and close of the financial year and average interest rates;
- p. borrowing strategy for the year compared to actual strategy;
- q. investment strategy for the year compared to actual strategy;
- r. explanations for variance between original strategies and actual;
- s. debt rescheduling done in the year;
- t. actual borrowing and investment rates available through the year;
- u. comparison of return on investments to the investment benchmark;
- v. compliance with Prudential and Treasury Indicators;
- w. other.

2.4 Benchmarks and Calculation Methodology:

2.4.1 Debt Management

- . Average rate on all external debt;
- . Average rate on external debt borrowed in previous financial year;
- . Average rate on internal borrowing;
- . Average period to maturity of external debt;
- . Average period to maturity of new loans in previous year.

2.4.2 Investment.

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

- a.** in house investments
3 month LIBID
- b.** cash fund manager(s) *if used*
7 day LIBID
e.g. cash/gilt composite)

2.2.3. Cash Management

Maintaining an average closing balance on the Council's non-interest earning bank accounts of less the £5k for the year.

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

2.5.1 Frequency and processes for tendering

Tenders are normally awarded on a 3 year basis with the option to extend for 2 years, if approved by the Cabinet. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.5.2 Banking services

The Council's banking arrangements are to be subject to competitive tender every 5 years or carry out a benchmarking and waive financial regulations if appropriate unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

2.5.3 Money-broking services

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

An approved list of brokers will be established which takes account of both prices and quality of services.

2.5.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional Treasury Management consultants and separate leasing advisory consultants on an ad hoc basis.

2.3.5 Policy on External Managers

The Council's does not currently employ full-time professional cash/external investment fund managers to manage a proportion or all of its cash, though should Fund Managers become an option, the Council will ensure that any company appointed would comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

The delegation of investment management to external managers would entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Sector Treasury Services Limited to assist in this respect.

TMP3 : DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

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

3.2.1 Records to be kept

The Treasury section has an Excel Database system in which all investment and loan transactions are recorded. The following records will be retained: -

- Daily cash balance forecasts;
- Daily Email notifications of rates available;
- Dealing slips/fax confirmations 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.

3.2.2 Processes to be pursued

- Cash flow analysis;
- Debt and investment maturity analysis;
- Ledger reconciliation;
- Review of opportunities for debt restructuring;
- 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 actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.2.3 Issues to be addressed.

3.1.3.1. In respect of every Treasury Management decision made the Council will:

- f) Above all be clear about the nature and extent of the risks to which the Council may become exposed;
- g) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;

- h) 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;
- i) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
- j) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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:

- d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- e) 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.

TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- Re-investing (including Money Market funds);
- 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

Contained within the Annual Investment Strategy.

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 (*English and Welsh authorities*) 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	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	

Leasing (not operating leases)
Deferred Purchase

● ●
● ●

Other Methods of Financing

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

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 Annual Investment Strategy 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 and Prudential and Treasury Indicators.

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

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

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

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principals, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TPM6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Section 151 Officer in respect of Treasury Management are set out in the Constitution. He will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

5.14 Allocation of responsibilities

(i) Full Council

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- approval of annual strategy;
- approval of amendments to the organisation's adopted clauses, Treasury Management policy statement and Treasury Management practices;
- budget consideration and approval;
- approval of the division of responsibilities;

- receiving and reviewing regular monitoring reports and acting on recommendations;

(ii) Cabinet

- receiving and reviewing treasury management policy statement and treasury management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

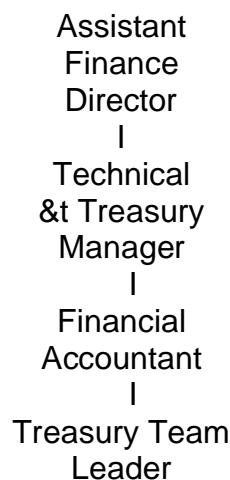
- receiving and reviewing regular monitoring reports quarterly.

5.15 Principles and Practices Concerning Segregation of Duties

5.15.1 The following duties must be undertaken by separate officers:

Dealing	Negotiation and approval of deal. Receipt and checking of broker’s 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.

5.16 Treasury Management Organisation Chart



5.17 Statement of the Treasury Management duties/responsibilities of each Treasury post

5.4.6. The Responsible Officer - Section 151 Officer

The responsible officer is the person charged with professional responsibility for the Treasury Management function and in this Council is the Assistant Director of Finance and Procurement. This person will carry out the following duties: -

- n) recommending clauses, Treasury Management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- o) submitting regular Treasury Management policy reports;
- p) submitting budgets and budget variations;
- q) receiving and reviewing management information reports;
- r) reviewing the performance of the Treasury Management function and promote best value reviews;
- s) ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- t) ensuring the adequacy of internal audit, and liaising with external audit;
- u) recommending the appointment of external service providers;
- v) 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;
- w) the responsible officer may delegate his power to borrow and invest to members of his staff. The Assistant Director of Finance and Procurement, the Treasury and Technical Manager the Financial Accountant and The Treasury Team leader, 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;
- x) 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;
- y) 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 appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations;
- z) 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.

5.4.7. Treasury and Technical Manager

The responsibilities of this post will be: -

- a) monitor compliance with the Treasury Procedures Document
- b) ensure appropriate division of duties
- c) produce periodic activity reports and reviews
- d) monitor day to day compliance with the Treasury Management statement
- e) supervision of overall treasury function
- f) authorisation of loan transactions

5.4.3. Accountant

- 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.

5.4.4. Treasury Team Leader

- a) carry out activities in accordance with the Treasury Procedures Document
- b) ensure compliance with policies, limitations and directions
- c) carry out daily operational cash flow management and dealings in the market
- d) ensure that all treasury transactions have been entered onto the general ledger correctly via a monthly reconciliation.

5.4.5. The Head of the Paid Service

The responsibilities of this post will be: -

- c) ensuring that the system is specified and implemented;
- d) ensuring that the responsible officer reports regularly to the Full Council / Cabinet / Audit and Governance Committee on Treasury policy, activity and performance.

5.4.6. The Monitoring Officer

The responsibilities of this post will be: -

- d) ensuring compliance by the responsible officer with the Treasury Management policy statement and Treasury Management practices and that they comply with the law.
- e) being satisfied that any proposal to vary Treasury policy or practice complies with law or any code of practice.
- f) giving advice to the responsible officer when advice is sought.

5.4.7. Internal Audit

The responsibilities of Internal Audit will be: -

- e) reviewing compliance with approved policy and Treasury Management practices.
- f) reviewing division of duties and operational practice.
- g) assessing value for money from Treasury activities.
- h) undertaking probity audit of Treasury function.

5.18 Absence Cover Arrangements

Adequate cover arrangements are in place to maintain the function, with 4 designated officers covering potential requirements.

5.19 Dealing Limits

There are no dealing limits for individual posts, limits are applied to institutions.

5.20 List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

5.8 Policy on Brokers' Services

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

5.9 Policy on Taping of Conversations

It is not this Council's policy to tape broker's conversations

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 through brokers. 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 CHAPS system to be completed by 3.00 pm on the same day, MMF are to be sent by 11 am.

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.

TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its Treasury Management activities; and on the performance of the Treasury Management function.

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMP's.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit Committee will have responsibility for the scrutiny of Treasury Management Activities.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.

The present arrangements and the form of these reports are detailed in the schedule below.

6.1 Annual programme of reporting

- e) Annual reporting requirements before the start of the year: -
 - review of the organisation's approved clauses, Treasury Management policy statement and practices
 - 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
- f) Mid-year review
- g) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

- 5. 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.

6. 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.

7. The Treasury Management Strategy Statement is concerned with the following elements:
 - m) Prudential and Treasury Indicators
 - n) current Treasury portfolio position
 - o) borrowing requirement
 - p) prospects for interest rates
 - q) borrowing strategy
 - r) policy on borrowing in advance of need
 - s) debt rescheduling
 - t) investment strategy
 - u) creditworthiness policy
 - v) policy on the use of external service providers
 - w) any extraordinary Treasury issue
 - x) the MRP strategy
8. 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

6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following:

- q) The Council's risk appetite in respect of security, liquidity and optimum performance
- r) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
- s) Which specified and non specified instruments the Council will use
- t) Whether they will be used by the in house team, external managers or both
- u) 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
- v) Which credit rating agencies the Council will use
- w) How the Council will deal with changes in ratings, rating watches and rating outlooks

- x) Limits for individual counterparties and group limits
- y) Country limits
- z) Levels of cash balances
- aa) Interest rate outlook
- bb) Budget for investment earnings
- cc) Use of a cash fund manager (if applicable)
- dd) 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

3. The Council approves before the beginning of each financial year a number of Treasury limits which are set through Prudential and Treasury Indicators.
4. 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 Mid year review

The Council will review its Treasury Management activities and strategy on a half yearly basis. This review will consider the following: -

- f) activities undertaken
- g) variations (if any) from agreed policies/practices
- h) interim performance report
- i) regular monitoring
- j) monitoring of Treasury Management indicators for local authorities.

6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented 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 the following: -

- g) transactions executed and their revenue (current) effects
- h) report on risk implications of decisions taken and transactions executed
- i) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- j) performance report
- k) report on compliance with CIPFA Code recommendations
- l) monitoring of Treasury Management indicators

6.8 Management Information Reports

Management information reports will be prepared every Quarter by the Treasury Accountant and will be presented to the Audit Committee.

* Reports are not usually formally prepared in Quarter 1.

These reports will contain the following information: -

- e) a summary of transactions executed and their revenue current effects;
- f) measurements of performance including effect on loan charges/investment income;
- g) degree of compliance with original strategy and explanation of variances.
- h) any non compliance with Prudential limits or other Treasury Management limits.

TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Section 151 Officer will prepare and Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together, with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

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

7.5 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.

7.6 Accounting Practices and Standards

Due regard is given to the Code of Practice and Accounting Regulations as they apply to Local Authorities in Great Britain.

7.7 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Treasury and Technical Manager 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 Treasury and Technical Manager 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.

7.8 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 database
- 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 (where used) including investment income schedules and movement in capital values.

TMP8 : CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule below.

8.7 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 from the previous years' cash flow records, adjusted for 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.

8.8 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 Acting officer.

8.9 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 28 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 28 days. During the recession this has been reduced to 10 days as an interim measure, to assist creditors cash flow circumstances.

8.10 Arrangements for Monitoring Debtors / Creditors Levels

The Head of Revenues (Sue Trahern) is responsible for monitoring the levels of debtors and the Payments Manager is responsible for monitoring the levels of creditors. Details are passed to the Treasury team on a Twice weekly basis to assist in updating the cash flow models.

8.11 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers/cash payment kiosks to deposit in the Council's banking accounts. The cashiers will notify the Treasury team by email before each morning, of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

8.12 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 responsible officer.

TMP9 : MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

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.

9.3 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.

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:

-

- h) evaluate the prospect of laundered monies being handled by them
- i) determine the appropriate safeguards to be put in place
- j) require every person engaged in Treasury Management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- k) make all its staff aware of their responsibilities under POCA
- l) 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.
- m) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Solicitor and Monitoring Officer 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 CHAPS for making deposits or by CHAPS (Bacs or Direct Debit in the case of the PWLB) for repaying loans.

TMP10 : TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will seek to appoint individuals, who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The section 151 Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

10.2 Details of Approved Training Courses

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

10.6 Records of Training Received by Treasury Staff

The section 151 officer will maintain records on all staff and the training they receive.

10.7 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.

10.8 Statement of Professional Practice (SOPP)

3. Where the Chief Financial Officer is a member of CIPFA, 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.
4. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP.

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.

TMP11 : USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule below.

11.3 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

11.3.1 Banking Services

- h) Name of supplier of service is the Nat West Bank.
- i) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- j) The branch address is:
1, Market Place, Nuneaton Warwickshire CV11 4YY.
02476 641971

- k) Contract is due to expire at the end of March 2013.
- l) Cost of service is variable depending on schedule of tariffs and volumes
- m) Payments due quarterly

11.3.2 Money-Broking Services

The Council will 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. The performance of brokers is reviewed by the Financial Accountant regularly to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Assistant Director Corporate Services,

Name of broker	address and tel. no.
<u>ICAP Europe Ltd</u> EC2M7UR Regulatory status: activities by the FSA	No2 Broadgate, London, 02075323550 authorised to undertake
<u>Tradition (UK) Ltd</u> Street, Regulatory status: activities by the FSA	Beaufort House, 15St. Botolph London, EC3A 7QX 02074223566 authorised to undertake
<u>Sterling</u> Bridge Walk 2SS Regulatory status: activities by the FSA	Colechurch House, I London London SE1 020 74968955 authorised to undertake
<u>London Currency</u> London Regulatory status: activities by the FSA	48 Haseldine Road, St Albans AI2 1RT 0207 7394444 authorised to undertake
<u>R P Martin</u> Hill, London Regulatory status: activities by the FSA	Cannon Bridge, 25 Dowgate EE4R 2BB 0207 469580 authorised to undertake

11.3.3 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 by the Assistant Director Corporate Services every 6 months or via the half yearly strategy meetings to check whether performance has met expectations.

- d) Name of supplier of service is Sector Treasury Services Limited.
17 Rochester Row, London SW1P 1QT Tel: 0871 664 6800
- e) Regulatory status: investment adviser authorised by the FSA
- f) Contract commenced 18th August 2009 and runs for 3 years, with an option to extend for a further 2 years
- g) Cost of service is £28,500 for the 3 year contract.
- h) Payments due quarterly in arrears.

Leasing Consultancy Services

No contract in place

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its Treasury Management consultants, the costs of which is included in the consultant's annual fee.

11.4 Procedures and Frequency for Tendering Services

See TMP2

TMP12 : CORPORATE GOVERNANCE

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

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.1 List of Documents to be made available for Public Inspection

- d. The Council is committed to the principle of openness and transparency in its Treasury Management function and in all of its functions.
- e. 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.
- f. The following documents are available for public inspection: -

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Review Report
- Treasury Management monitoring reports (e.g. half yearly, quarterly)
- Annual accounts and financial instruments disclosure notes
- Annual budget
- Medium Term Financial Plan
- Minutes of Council / Cabinet / committee meetings

APPENDIX M - Treasury Management Glossary of Terms

Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Capital Financing Requirement	The Council's underlying need for borrowing for a capital purpose
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange of regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they are.
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
iTraxx	This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25 European financial companies. Clients can use the iTraxx to see where an institutions CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings.
Liquidity	An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires.

Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision	Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation at or around a 2%.
Security	An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity.
Short Term	A period of 364 days or less
Treasury Management	To plan, organise and control cash and borrowings so as to optimise interest and currency flows, and minimise the cost of funds.
Working Capital	Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.
Yield	The annual rate of return on an investment, expressed as a percentage.

Appendix C

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.

- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) This category covers bodies with a minimum Short-Term rating of AA- (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

In accordance with the Code, the Council has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies. These criteria are a maximum of £10m per organisation and with organisations that meet the Treasury Management Staff's

Non-specified investments – are any other type of investment (i.e., not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with: -

	Non-Specified Investment Category	Limit (£ or %)
i.	<p>Supranational Bonds greater than 1 year to maturity</p> <p>(a) Multilateral Development Bank bonds - These are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g., European Reconstruction and Development Bank etc).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g., National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings</p> <p>£10m</p>
j.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£10m
k.	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£2m
l.	<p>Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £100m, but will restrict these types of investments to under 1 year.</p>	£2m

m.	Any Bank or Building Society that has a minimum long-term credit rating of AA-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£10m
n.	Any Non-Rated Subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from a parent company, the investment must be under 1 year, and the subsidiary must be UK based.	£2m
o.	Share Capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	£2m
p.	Other fund: The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Council will seek guidance on the status of any fund it may consider using and will update Cabinet before any use of a new style of fund.	

NOTE 1. This Council will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.