Wiltshire Council

Council

25 February 2014

Treasury Management Strategy 2014-15

Executive Summary

This report presents the Treasury Management Strategy for 2014-15 including:

a) the Prudential and Treasury Indicators (PrIs and TrIs) for the next three years;
b) other debt management decisions required for 2014-15 that do not feature within the PrIs or TrIs, as shown in paragraphs 3.11 to 3.20;
c) the Annual Investment Strategy for 2014-15 (only one change from 2013-14 as detailed in paragraph 3.23 of the report); and
d) the updated Treasury Management Practices.

Proposals

Following recommendation by Cabinet at its meeting on 11 February 2014, Council is recommended to:

a) adopt the Prudential and Treasury Indicators (Appendix A);
b) adopt the Annual Investment Strategy, including the proposed increase in the lending limit associated with Government backed UK banks (Appendix B);
c) adopt the updated Treasury Management Practices (TMPs) (Appendix C);
d) delegate to the Associate Director, Finance, Revenues & Benefits and Pensions the authority to vary the amount of borrowing and other long term liabilities within both the Treasury Indicators for the Authorised Limit and the Operational Boundary;
e) authorise the Associate Director, Finance, Revenues & Benefits and Pensions to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio;
f) agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits; and
g) agree that any surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Associate Director, Finance, Revenues & Benefits and Pensions the authority to select such funds.

Reasons for Proposals

To enable the Council to agree a Treasury Management Strategy for 2014-15 and set Prudential Indicators that comply with statutory guidance and reflect best practice.

Michael Hudson
Associate Director, Finance, Revenues & Benefits and Pensions

Wiltshire Council

Council

25 February 2014

Treasury Management Strategy 2014-15

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1. Purpose of Report

1.1 This report, which was presented to Cabinet on 11 February 2014, asks the Council to approve the Prudential and Treasury Indicators, together with the Treasury Management Strategy for 2014-15, including an increase in the lending limit associated with UK Government backed banks, and the updated Treasury Management Practices (Appendix C).

1.2 The Treasury Management Practices (TMPs) are required by the CIPFA Treasury Management Codes and Treasury Guidelines and have not been updated for some time. Consequently, it is considered necessary, for their formal adoption, that the TMPs, in this instance, although covered in a relatively significant number of pages, are included in full.

2. Background

2.1 The Council is required by legislation to approve a Treasury Management Strategy, which incorporates the setting of Prudential and Treasury Indicators and an Annual Investment Strategy.

3. Main Considerations for the Council

Prudential Indicators (PrIs) and Treasury Indicators (TrIs)

Basis of the Indicators

3.1 A summary of the PrIs and TrIs is shown in Appendix A. The key indicators are the Treasury Indicators relating to the Authorised Limit (TrI 1) and the Operational Boundary (TrI 2), which control the Council's exposure to debt.

3.2 The PrIs and TrIs have been set on the basis of all known commitments and the effect of all known revenue and capital proposals relating to the Council.

Monitoring and Reporting of the Prudential Indicators

3.3 Progress will be monitored against the PrIs and TrIs throughout the year, particularly against the two borrowing limits. Cabinet will be kept informed of any issues that arise, including potential or actual breaches. Members will receive quarterly capital monitoring reports and quarterly treasury reports.

3.4 The elements within the Authorised Limit and the Operational Boundary, for borrowing and other long term liabilities require the approval of the Council. In order to give operational flexibility, members are asked to delegate to the

Associate Director, Finance, Revenues & Benefits and Pensions the ability to effect movements between the two elements where this is considered necessary. Any such changes will be reported to members in the next appropriate treasury report. The operational boundary is a key management tool for in-year monitoring. It will not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary is considered significant and will lead to further investigation and action as appropriate. Any breach of the operational boundary will be reported to members in the next appropriate treasury report. The authorised limit will in addition need to provide headroom over and above the operational boundary, sufficient for unusual cash movements, for example, and should not be breached.

Borrowing Strategy

Levels

3.5 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded (please refer to Appendix A – paragraph 12) with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure (internal borrowing). This strategy is prudent, as investment returns are low and by borrowing internally and, therefore, having less cash to invest, counterparty (the other party that participates in a financial transaction, such as an organisation/bank from whom the Council borrows money/with which the Council deposits cash surpluses) risk is reduced.

3.6 Against this background and the risks within the economic forecast, caution will be adopted with the 2014-15 treasury operations. The Associate Director, Finance, Revenues & Benefits and Pensions will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a) if it was considered that there was a significant risk of a sharp **fall** in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

b) if it was considered that there was a significant risk of a much sharper **rise** in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to Cabinet in the next appropriate treasury report.

Rate and Timing of Borrowing

3.7 Taking account of the cash required to support the capital programme over the next three to five years, the Council has an anticipated requirement, subject to the approval of the capital programme on 25th February 2014, to borrow an additional £99.9 million between now and the end of 2016-17. This is reflected in PrI 4 in Appendix A (Gross Borrowing – General Fund), i.e. the increase in gross borrowing to £345.1 million in 2016-17 from £245.2 million in 2013-14.

3.8 The timing of any borrowing is crucial in terms of interest rates and the potential to minimise interest costs. Prior to any actual borrowing the treasury team will, in conjunction with our treasury advisers, proactively manage the interest rate position, using all information available to inform the borrowing decision.

3.9 It is, of course, not always possible to obtain the lowest rates of interest, as there is a risk that unforeseen events can significantly alter the level of rates, however, ongoing active monitoring of rates will mitigate against this risk.

3.10 In supporting the capital programme, the Council will consider all borrowing options, such as:

a) internal borrowing, using medium term cash balances;

b) fixed rate Public Works Loan Board (PWLB) borrowing;

c) long term fixed rate market loans at rates, which, dependent upon market conditions and availability, can be significantly below PWLB rates for the equivalent maturity period;

The decision will be made whilst maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

Other Debt Management Issues

Policy on Borrowing in Advance of Need

3.11 The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed because it is illegal. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is ensured.

Debt Rescheduling

3.12 As short term borrowing rates will be cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the debt repayment cost (i.e. premiums for early repayment).

3.13 The reasons for any rescheduling to take place will include:

a) the generation of cash savings and / or discounted cash flow savings;

b) helping to fulfil the treasury strategy;

c) enhancing the balance of the portfolio (the maturity profile and/or the balance of volatility).

3.14 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.15 All rescheduling will be reported to members in a treasury report at the earliest meeting following its action.

Lender Option Borrower Option (LOBO) Market Loans

3.16 Wiltshire Council currently has borrowings of £61 million in LOBO loans.

3.17 There are basically two main types of LOBO loan (of which the Council has both in its portfolio):

a) a loan with an 'initial period' at a relatively low rate of interest, on the completion of which, the rate will automatically increase to a 'secondary rate' under the terms of the loan agreement. The interest rate is then subject to 'call option dates' at certain predetermined stages (e.g. every six months, every five years) over the life of the loan, at which time the lender has the option to set a revised interest rate and the borrower has the option to repay the loan without penalty; or

b) a loan subject to 'call option dates' only (i.e. there is no 'secondary rate') at which time the lender has the option to raise the interest rate and the borrower has the option to repay the loan without penalty.

3.18 If the lender exercises his option to revise the interest rate at one of the 'call option dates', the Council's strategy is that it will always exercise its option to repay the loan. Consideration will then be given to refinancing the debt where the overall level of debt prior to the repayment needs to be maintained.

3.19 LOBO loans are treated in accordance with CIPFAs Treasury Management in Public Services Guidance Notes for Local Authorities 2011 Edition, relating to the determination of the maturity of borrowing that affects the date on which a LOBO loan should be treated as maturing. The Guidance states that "if the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment." For the purposes of the appropriate PrI, therefore, maturity occurs at the next call option date – i.e. the date on which the lender has the right to increase the interest rate payable without limit. However, in the current market of relatively low interest rates and very little significant upward movement in rates predicted in the near future, it is unlikely that the loans would be called in the short to medium term.

Short Term Cash Deficits.

3.20 Temporary loans, where both the borrower and lender have the option to redeem the loan within twelve months, are used to offset short term revenue cash deficits. They may also be used to cover short term capital requirements until longer term loans become more cost effective. The majority of these loans will be at fixed interest rates, maturing on specific dates. The strategy is that the Council shall utilise temporary loans for any short term cash deficits that arise in respect of revenue and/or capital.

Cash Investments

Annual Investment Strategy

3.21 The Annual Investment Strategy for 2014-15, which sets out the policy framework for the investment of cash balances, is shown in Appendix B.

3.22 Comparisons with other local authorities' investments through the local treasury advisors Investments Benchmarking Group suggest that the Council's average investment return could be improved. Although rates are currently low and likely to remain that way for a while, following discussions with the treasury advisors, an option available is an increase in lending limits more in line with other authorities within the group, whilst maintaining the security and liquidity of the Council's investments.

3.23 Currently some of the more competitive rates, within the Council's creditworthiness criteria, are available from the UK Government backed banks (Lloyds Banking Group and Royal Bank of Scotland Group). It is, therefore, proposed that the lending limit in Appendix B for UK Government backed banks shall be increased from £8 million to £12 million to take advantage of these competitive rates, which should lead to an improved average rate of return on the Council's investments. This has been reflected in the Annual Investment Strategy.

3.24 Other key issues to note are:

a) the risk appetite of this Council is low in order to give priority to the security of its investments;

b) the borrowing of monies purely to invest or on-lend and make a return is unlawful;

c) all Council investments will be in sterling. This will avoid foreign exchange rate risk.

Short Term Cash Surpluses

3.25 It is anticipated that temporary short term cash surpluses will arise regularly during the year. Investment of these surpluses will be in specific investments (e.g. short term Sterling investments of less than one year). Such investments will normally be short term deposits maturing on specific dates that reflect cash flow requirements at the date the deposit is made. However, under certain market conditions, money market funds will be used, particularly if they provide improved returns.

Longer Term Cash Surpluses

3.26 Some cash surpluses, for example core revenue balances, net creditors, accrued reserves and special funds such as those for insurance and PFI can be invested on a long term basis. These cash surpluses may be used for capital financing requirements, where longer term interest rates mean that it is less cost effective to take out longer term loans.

3.27 Improved returns may be obtained by placing these surpluses in money market funds. The Associate Director, Finance, Revenues & Benefits and Pensions has delegated authority to select money market funds and appoint External Cash Managers within the current approved strategy and it is proposed that this authority is retained.

3.28 The proposed Investment Strategy for 2014-15 includes the use of unspecified investments (e.g. more than 12 months to maturity and for which external professional advice is required) that the Council's treasury adviser may recommend for investment of longer term cash surpluses.

3.29 Although the Council has been well positioned in terms of the balance between both loans and investments, rates of interest paid on deposits have been moving slightly lower over the last financial year. Following a further period of similarly low rates, the Bank Rate is not expected to start increasing until quarter 2 (April to June) 2016.

Icelandic Deposits

3.30 The latest position on the recovery of the £12 million investments, frozen as a result of the collapse of the Icelandic banks, Heritable (£9 million) and Landsbanki (£3 million), is that the Council has so far recovered:

a) £8.5 million from the administrators of Heritable; and

b) £1.7 million from the Landsbanki Islands hf Bank Winding-up Board WuB).

3.31 The Council has now recovered approximately 94% of the £9 million originally invested in Heritable. As this is extremely close to the expected final recovery proportion (of 95%), it is unlikely that any further distributions will be significant, relative to those previously received. The timing and quantum of any further distributions are dependent upon the outcome of ongoing legal proceedings.

3.32 There is currently no indication of the timing or amount of any further distributions from the Landsbanki WuB. The WuB have indicated that the Council will (subject to foreign exchange fluctuations and the lifting of the capital controls within Iceland) eventually recover 100% of the original investment in Landsbanki Islands hf. However, they have also indicated that this could take several years.

<u>Minimum Revenue Provision</u>

3.33 The minimum revenue provision (MRP) is the amount set aside for the repayment of the debt as a result of borrowings made to finance capital expenditure.

3.34 In accordance with Local Authorities (Capital Finance and Accounting) Regulations 2008 the Council adopted a MRP annual policy in May 2009.

3.35 For financial year 2013-14 the annual policy remained unchanged, in that a regulatory method of setting aside 4% of the borrowing requirement for supported borrowing and an asset life method calculation for any unsupported borrowing was applied.

3.36 It is proposed that this policy is retained in 2014-15.

4. Environmental and Climate Change Considerations

4.1 None have been identified as arising directly from this report.

5. Equalities Impact of the Proposal

5.1 None have been identified as arising directly from this report.

6. Risks Assessment and Financial Implications

6.1 The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of its investment counterparties.

6.2 The strategies in Appendix A and Appendix B take account of the forecast movement in interest rates and allow sufficient flexibility to vary strategy if actual movements in interest rates are not in line with the forecast.

6.3 The Council's treasury adviser is currently predicting the following interest rate movements:

a) the Bank Rate has remained at 0.50% since March 2009. It is expected to rise to 0.75% by the end of the second quarter of 2016, rising further to 1.00% by the end of the third quarter of 2016. Then it is expected to rise again (by a further 0.25%) during the first quarter of 2017;

b) medium term (10 year) PWLB borrowing rates are expected to fall, slightly, from 3.70% to 3.60% during the first a quarter of 2014, then rising gradually to 4.50% by the end of March 2017.

6.4 Interest rates have remained relatively static during 2013, following on from the economic downturn that started in late 2008. Based on the latest forecast, interest rates are not expected to rise until the middle of 2016. Although PWLB rates will fluctuate in line with Gilt prices, depending on market sentiment.

6.5 The risk that counterparties are unable to repay investments could jeopardise the Council's ability to meet its payments. Investment counterparty risk is controlled by using suitable criteria for assessing and monitoring credit risk, including the use of an up to date lending list. The lending list is based on counterparty categories relating to country, type, sector, maximum investment, and maximum duration of investment (see Appendix B). The Council uses the credit worthiness service provided by its treasury advisers, which is a comprehensive modelling approach incorporating the credit ratings of all three major credit rating agencies, together with 'overlays' of Credit Default Swap (CDS) spreads (default risk), credit watches, credit outlooks and sovereign ratings from the agencies (a more detailed explanation is included within the Annual Investment Strategy in Appendix B).

6.6 Interest earnings are an important source of revenue for the Council and it is, therefore, important that the portfolio is managed in a way that maximises the investment income stream, whilst managing exposure to risk and maintaining sufficient liquidity.

7. Legal Implications

7.1 None have been identified as arising directly from this report.

8. Public Health Implications

8.1 None have been identified as arising directly from this report.

9. Safeguarding Considerations

9.1 None have been identified as arising directly from this report.

10. Options Considered

10.1 Future consideration will be given to alternative borrowing and investment options to improve the cost effectiveness of and return on treasury activities for the Council. This may incorporate consideration of alternative sources of capital financing, such as the issuing of bonds, rather than the more traditional borrowing approaches, together with longer term investments, where appropriate and subject to security and liquidity of investments. Currently, the issuing of bonds has not been taken forward because of both the costs of issuance, such as gaining and maintain a suitable credit rating (local authorities, including Wiltshire Council are presently rated AAA) and the interest rates, which have not been competitive (with PWLB rates).

10.2 The options in relation to the revenue and capital budgets in these proposals are fully consistent with the figures included within the budget considerations.

11. Conclusion

11.1 The Council is requested to:

a) adopt the Prudential and Treasury Indicators (Appendix A);

c) adopt the Annual Investment Strategy, including the proposed increase in the lending limit associated with Government backed UK banks (Appendix B);

d) adopt the updated Treasury Management Practices (TMPs) (Appendix C);

e) delegate to the Associate Director, Finance, Revenues & Benefits and Pensions the authority to vary the amount of borrowing and other long term liabilities within both the Treasury Indicators for the Authorised Limit and the Operational Boundary;

f) authorise the Associate Director, Finance, Revenues & Benefits to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio;

g) agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits; and

h) agree that any long term surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Associate Director, Finance, Revenues & Benefits the authority to select such funds.

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report: NONE

Appendices

Appendix A Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17
Appendix B Annual Investment Strategy for 2014-15
Appendix C Treasury Management Practices (Updated)

APPENDIX A

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

1. The Prudential and Treasury Management Codes and Treasury Guidelines require the Council to set a number of Prudential and Treasury Indicators for the financial year ahead. This appendix sets out the indicators required by the latest codes analysed between Prudential Indicators and Treasury Indicators.

Prudential Indicators

PrI 1 – Capital Expenditure

2. This PrI shows the actual and anticipated level of capital expenditure for the five years 2012-13 to 2016-17. The Capital Programme 2014-15 to 2016-17 will be submitted to Cabinet and Council in February 2014, which will ratify the budget for 2014-15. The years 2015-16 to 2016-17 are based on indicative figures as part of the Capital Programme.

	2012-13 Actual £million	2013-14 Expected £million	2014-15 Estimate £million	2015-16 Estimate £million	2016-17 Estimate £million
General Fund	67.3	137.0	132.1	74.9	58.0
Housing Revenue Account	4.5	11.1	10.2	10.2	10.2
Total	**71.8**	**148.1**	**142.3**	**85.1**	**68.2**

3. The capital expenditure figures shown in PrI 1 assume a certain level of financing from borrowing each year. New and existing borrowing needs to be affordable and sustainable.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

4. PrI 2 identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (funding receivable from the Government and council tax payers and rents receivable in the case of the HRA).

	2012-13 Actual £million	2013-14 Expected £million	2014-15 Estimate £million	2015-16 Estimate £million	2016-17 Estimate £million
General Fund	**6.5%**	**6.3%**	**7.1%**	**8.4%**	**9.5%**
Housing Revenue Account	**15.9%**	**15.3%**	**14.7%**	**14.4%**	**14.0%**

5. The General Fund cost of financing will rise proportionately over the reporting period because of the effect on financing costs where ‘new debt’ is expected to rise faster than ‘old debt’ is repaid. Previously the rise in General Fund financing costs was not an affordability issue as the new borrowing taken out was supported by Revenue Support Grant. Only by the use of continued Unsupported Borrowing was there any pressure on the Council Tax. In terms of the fall in HRA financing costs in 2013-14, through 2014-15, 2015-16 and 2016-17, this is a reflection of fixed borrowing costs over the period against expected rental income.

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

6. However, the changes to the Revenue Support Grant mechanism that were introduced for 2006-07 and later years (specifically the grant “floor”) mean that the Council may not be able to afford the financing costs of all the supported capital expenditure indicated by the Government, because we do not receive the full grant. This has the effect of “levelling the playing field” so that support for capital borrowing has to be considered alongside all other revenue priorities in the budget process. Support for capital can no longer be “passported” automatically.

PrI 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax and Housing Rents

7. PrI 3 represents the potential increase in Council Tax/Housing Rents required to fund the planned increase in the capital budgets for the forthcoming year and future years as a proportion of the tax base at Band D/average weekly housing rents. Due to the change to the subsidy system there is no planned effect on average housing rents due to the additional borrowing required.

	2014-15 £	2015-16 £	2016-17 £
Effect on Band D Council Tax	-4.39	3.92	0.95
Effect on Average Housing Rent per week	0.00	0.00	0.00

8. In 2014-15 the effect on Band D Council Tax is a credit because there is a potential decrease in financing costs associated with the potential reduction in planned capital budgets on the basis of this PrI.

PrI 4 – Gross Borrowing and the Capital Financing Requirement

9. PrI 4 measures the so-called “Golden Rule” and focuses on prudence. Its purpose, as described in the Prudential Code, is: *“In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the local authority should ensure that gross borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two years”.*

10. The Capital Financing Requirement (CFR) increases whenever capital expenditure is incurred. If resourced immediately (from capital receipts, direct revenue contributions or capital grant/contributions) the CFR will reduce at the same time that the capital expenditure is incurred, resulting in no net increase in CFR.

11. Where capital expenditure is not resourced immediately, there is a net increase in CFR, represented by an underlying need to borrow for capital purposes, whether or not external borrowing actually occurs. The CFR may then reduce over time through future applications of capital receipts, capital grants/contributions or further charges to revenue.

12. This PrI is necessary, because under an integrated treasury management strategy (in accordance with best practice under the CIPFA Code of Practice on Treasury Management in the Public Services), borrowing is not associated with particular items or types of expenditure, whether revenue or capital.

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

13. In accordance with a change in the guidance, issued by CIPFA in November 2012, this PrI has been amended to compare gross debt with the CFR. (Previously net debt (after investments) was compared with CFR.)

	2012-13 Actual £million	**2013-14 Expected £million**	**2014-15 Estimate £million**	**2015-16 Estimate £million**	**2016-17 Estimate £million**
CFR – General Fund	341.9	378.1	438.7	439.7	431.8
CFR – HRA	122.6	122.6	122.6	122.6	122.6
Gross Borrowing – Gen Fund	245.2	245.2	305.1	335.1	345.1
Gross Borrowing – HRA	118.8	118.8	118.8	118.8	118.8
CFR not funded by gross borrowing – Gen Fund	**96.7**	**132.9**	**133.6**	**104.6**	**86.7**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**

14. No movement in General Fund gross borrowing is anticipated in 2013-14. In the following financial years, 2014-15 to 2016-17, gross borrowing is expected to increase as planned additional long term borrowing is taken out.

15. No problems are foreseen in meeting the “Golden Rule” over the period under review. The table above shows a relatively significant margin not funded by gross borrowing.

<u>PrI 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services (“The Code”)</u>

16. The Revised CIPFA Code of Practice for Treasury Management in the Public Services 2009 was adopted by Wiltshire Council at its meeting on 23 February 2010.

17. All recommendations within this report are consistent with the Revised CIPFA Code.

<u>Treasury Management Indicators within the Prudential Code</u>

<u>TrI 1 – Authorised Limit for External Debt</u>

18. The Authorised Limit is the Operational Boundary (see TrI 2 below), including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict, Council approved an amended allowance of 2.5% in the Treasury Management Strategy 2012-13 at its meeting on 15 February 2012. It is proposed that an allowance of 2.5% is continued for General Fund borrowing for 2014-15 to 2016-17 and this will be kept under review. The allowance provides for the possibility of additional borrowing during the year as a result of Government support for further schemes and provides headroom where the projection proves too optimistic (payments made earlier or receipt of income delayed against that forecast). There is no allowance in respect of HRA borrowing as it is capped and, therefore, cannot be exceeded.

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

Authorised Limit	**2014-15 £million**	**2015-16 £million**	**2016-17 £million**
Borrowing – General Fund	471.2	473.2	466.1
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**594.6**	**596.6**	**589.5**

19. The Authorised Limit set by the Authority is the statutory borrowing limit under Section 3(1) of the Local Government Act 2003, a breach would be serious and, therefore, there is the need to build in sufficient headroom.

TrI 2 – Operational Boundary for External Debt

20. The Operational Boundary and the Authorised Limit are central to the Prudential Code and reflect the limits that authorities place on the amount of their external borrowing.

21. The Operational Boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cash flow purposes, which is consistent with other budget proposals. The basis of the calculation for General Fund borrowing 2014-15 (£459.7 million) is:

    - Expected Capital Financing Requirement at 31 March 2014 of £378.1 million
    - Plus the expected long-term borrowing to finance capital expenditure (unsupported only £74.5 million)
    - Less the expected set-aside for debt repayment (£12.9 million)
    - Plus the expected maximum level of short-term cash flow borrowing that is anticipated (£20.0 million).

22. The basis of the calculation for HRA borrowing 2014-15 is the debt settlement of £123.2 million.

Operational Boundary	**2014-15 £million**	**2015-16 £million**	**2016-17 £million**
Borrowing	459.7	461.6	454.8
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**583.1**	**585.0**	**578.2**

23. The Operational Boundary for each year also includes a small provision for other long term liabilities.

24. The Operational Boundary is a key management tool for monitoring the Authority's expected level of borrowing. It is essential to ensure that borrowing remains within the limits set and to take appropriate action where any likely breach is anticipated. Monitoring will take place through the year and will be reported to Cabinet.

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

<u>TrI 3 – External Debt – Actuals at 31 March 2013 and Expected 2014</u>

25. This TrI shows the amount of gross external debt outstanding in periods prior to the budget years under consideration. Other long term liabilities relate to a provision for any borrowing required for finance leases on certain properties, plant, vehicles and equipment. It should be noted that as these figures are taken at a point in time, they are not comparable with the Authorised Limit and Operational Boundary, which are control limits.

	31/3/13 Actual £million	**31/3/14 Expected £million**
Borrowing – General Fund	245.2	245.2
Borrowing – HRA	118.8	118.8
Other Long Term Liabilities	0.2	0.2
TOTAL	**364.2**	**364.2**

Treasury Management Indicators within the Treasury Management Code

<u>TrI 4a and 4b – Upper Limit on Fixed Interest Rate Exposures and Variable Interest Rate Exposures, respectively</u>

26. Future interest rates are difficult to predict. Anticipated rates are shown in the main report, under Risk Assessment. Indications are that best value will be achieved by taking long-term loans at fixed rates in 2014-15. However, consideration of short term variable rate loans may prove to be advantageous, in 2014-15 and in future financial years.

27. Interest rates will be monitored closely, in conjunction with the treasury adviser, to take advantage of any favourable changes in circumstances. The strategy should still be flexible, the upper limit for fixed interest rate and variable interest rate exposures are set out below.

The Council's upper limit for fixed interest rate exposure for the three year period 2013-14 to 2015-16 is 100% of net outstanding principal sums.

The Council's upper limit for variable interest rate exposure is 50% for 2014-15, 50% for 2015-16 and 55% for 2016-17 of net outstanding principal sums.

<u>TrI 5 – Upper & Lower Limits on the Maturity Structure of Borrowing</u>

28. The Council's policy needs to ensure that it is not forced to refinance too much of its long term debt in any year when interest rates are high. The present long-term General Fund debt, of £245.2 million, falls due for repayment over the next 60 years. LOBO (Lender Option Borrower Option) market loans are included at rates determined by reference to the earliest date on which the lender can require payment (i.e. at the next interest rate call date), as currently recommended by CIPFA. Most of the Council's debt matures within the period "10 years and above", albeit PWLB debt only. Depending on the maturity profile, the upper limits may require amendment for further borrowing in the future.

Prudential and Treasury Indicators for 2014-15, 2015-16 & 2016-17

29. In addition to the main maturity indicators it is considered prudent that no more than 15% of long term loans should fall due for repayment within any one financial year.

30. In order to protect the Council from this risk and to safeguard the continuity in treasury management financing costs, the following limits have been adopted.

Limits on the Maturity Structure of Borrowing	**Upper**	**Lower Limit**
Maturing Period:		
- under 12 months	15%	0%
- 12 months and within 24 months	15%	0%
- 2 years and within 5 years	45%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TrI 6 – Principal Sums invested for periods of longer than 364 days

31. This TrI is covered by the Annual Investment Strategy, which is detailed in the following appendix.

WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2014-15

The Main Strategy

1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

2. The general investment policy of the Council is the prudent investment of any surplus cash balances, the priorities of which are (in order):

   a) the security of capital (first);
   b) the liquidity of investments (second); and (then)
   c) return (third).

3. The Council will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

4. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

5. All Council investments will be in sterling. This will avoid foreign exchange rate risk.

6. Investment of the Council's normal cash flow requirements will be in specified investments, as prescribed in "The Guidance". The categories of organisations with which investments will be placed and the minimum high credit quality required for each category are those set out in the minimum requirements for high credit quality below.

7. Investments in money market funds may be made if the fund has a high credit rating (AAA), as prescribed in the minimum requirements for high credit quality below.

8. For specified investments made under the recommendations of the Council's treasury adviser, the approved policy must be followed and is bound by the minimum requirements for high credit quality below.

9. In addition, using the professional judgement of the Council's treasury advisers, non specified investments may be made in UK Government Bonds (Gilts) and in multilateral development banks, such as the European Bank for Reconstruction and Development (EBRD), (as defined in Statutory Instrument 2004 No. 534) with a high credit rating, as prescribed in the minimum requirements for high credit quality below. (Multilateral development banks, or MDBs are supranational institutions set up by sovereign states, which reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital.)

WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2014-15

10. Such investments are the only non-specified investments authorised for use and will only be:

    a) in sterling
    b) in the case of UK Gilts, for a maximum of 50 years; and
    c) for investments maturing in excess of 12 months, limited to £30 million.

11. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority will comply with the requirements of SI 2009 No 393. The Pension Fund Investment Strategy is approved by the Pension Fund Committee.

12. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the advisors ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

13. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

14. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

15. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

16. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

17. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising

credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

a) credit watches and credit outlooks from credit rating agencies;
b) CDS spreads to give early warning of likely changes in credit ratings;
c) sovereign ratings to select counterparties from only the most creditworthy countries.

18. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
d) Purple – 2 years;
e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):
f) Orange – 1 year;
g) Red – 6 months;
h) Green – 100 days; and
i) No Colour – not to be used.

19. The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

20. All credit ratings will be monitored at least weekly (daily if there are any updates released by Capita Asset Services). The Council is alerted to changes in ratings of all three agencies through its use of the creditworthiness service.

21. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

22. In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2014-15

23. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

24. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings.

The Minimum requirements for "high credit quality"

25. In accordance with the DCLG Guidance on Local Government Investments in respect of selection of counterparties with whom investments are placed, Wiltshire Council will comply with the minimum requirements below.

26. Credit ratings will be those issued by Fitch Ratings Ltd in respect of individual financial institutions (as shown below, where F1+ is the highest short term rating and AAA the highest long term rating). An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is the highest.

27. The minimum requirements for high credit quality, by type of institution, are as follows:

- **Banks incorporated inside the United Kingdom with a short term credit rating of at least F1 or Government backed and their subsidiaries;**
- **Banks incorporated outside the United Kingdom with a short term credit rating of at least F1+ and a long term rating of A+;**
- **United Kingdom building societies with a short term credit rating of at least F1 or Government backed;**
- **All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003)** (ratings are not issued for most of these bodies);
- **Multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA;**
- **All banks & building societies must have a bank viability rating of at least bbb – except where the counterparty is UK Government backed (fully and partially) – (aaa being the highest, through aa, a and bbb);**
- **In addition, all banks and building societies to which the Authority may lend funds must have a support rating of no more than 3 (in the range 1, being the highest support rating to 5, the lowest);**
- **Money market funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies,**

Standard and Poor's, Moody's Investor Services Ltd or Fitch Ratings Ltd.; and

- **Deposits must only be placed in money market funds subject to individual signed management agreements.**

28. In addition to the above criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):

a) Up to £15 million:

- **UK incorporated banks with a long term credit rating of at least AA;**
- **Overseas banks that have a long term credit rating of at least AA;**
- **Multilateral development banks;**
- **Local authorities and other public bodies; and**
- **Money market funds.**

b) Up to £12 million:

- **Government backed UK banks and UK building societies and their subsidiaries**

c) Up to £8 million:

- **Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
- **Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
- **UK Building societies with long term credit rating of at least A; and**
- **Government backed overseas banks and their subsidiaries.**

TREASURY MANAGEMENT PRACTICES - SCHEDULES

These Schedules set out the details of how the Treasury Management Practices (TMPs) are put into effect by the Council.

APPENDIX C

TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP1 RISK MANAGEMENT

INDEX OF SCHEDULE A

TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP1 RISK MANAGEMENT

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the Council 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 Council's capital or current (revenue) resources.

Wiltshire Council 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

- Wiltshire Council will, subject to its own Treasury Management Strategy, use the Capita Asset Services creditworthiness service based on colours determined by minimum combinations of ratings to derive maturity limits as follows:
  - Yellow 5 years
  - Dark Pink 5 Years (enhanced money market funds, credit score 1.25)
  - Light Pink 5 Years (enhanced money market funds, credit score 1.5)
  - Purple 2 years
  - Blue 1 year (only nationalised or semi nationalised UK Banks)
  - Orange 1 year
  - Red 6 months
  - Green 100 days
  - 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 Capita Asset Services "Guide to Establishing Credit Policies December 2011" for a full explanation.
  - The Council will use credit criteria in order to select creditworthy counterparties with which it places investments.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- Credit ratings will be used as supplied from all three rating agencies – Fitch, Moody's and Standard & Poor's.
- Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the Council.
- 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.
- Credit ratings for individual counterparties can change at any time. The Associate Director, Finance, Revenues & Benefits and Pensions 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.
- Wiltshire Council 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
- Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows:
  - Investment of the Council's normal cash flow requirements will be in specified investments, and therefore up to a maximum duration of one year, as prescribed in "The Guidance". The categories of organisations with which investments will be placed, the minimum high credit quality required for each category and the maximum amounts to be placed in different types of investment instrument are those set out in the minimum requirements for high credit quality below.
  - Investments in money market funds may be made if the fund has a high credit rating (AAA), as prescribed in the minimum requirements for high credit quality below.
  - In addition, using the professional judgement of the Council's treasury advisers, non specified investments (where maturity may occur in more than one year) may be made in UK Government Bonds (Gilts) and in multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a high credit rating, as prescribed in the minimum requirements for high credit quality below.
  - Such investments are the only non-specified investments authorised for use and will only be:

a) in sterling
b) in the case of UK Gilts, for a maximum of 50 years; and
c) for investments maturing in excess of 12 months, limited to £30 million.

- Diversification: Wiltshire Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following:
  - Maximum amount to be placed with any one institution - £15 million, £12 million or £8 million, dependent upon credit criteria as shown below.
  - Group limits, where a number of institutions are under single ownership, are subject to the same limits per group, based upon the same credit criteria shown below (i.e. where there are a number of institutions within the same group the maximum of £15 million, £12 million or £8 million will be applied as an aggregate of the investments with all the individual institutions in the group).
  - Capita Asset Services limits (e.g. banks versus building societies) are shown in the minimum requirements for high credit quality below.
  - Country limits – a minimum sovereign rating of AA- is required for an institution to be placed on our approved lending list. The list of countries which currently meet this criteria are monitored closely by the Treasury team.
- Investments will not be made with counterparties that do not have a credit rating in their own right
- 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 below. Where funds are invested using external fund manager(s), they will adhere to the counterparty credit criteria and maximum individual limits set by Wiltshire Council
- The **minimum requirements for 'high credit quality'** for selecting the creditworthiness of counterparties with which to place investments is based on the Fitch Credit Rating Agency credit ratings in respect of individual financial institutions are as follows. An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is applied.

  - ***Banks incorporated in the United Kingdom with a short-term credit rating of at least F1 or Government backed and their subsidiaries.***

  - ***Banks incorporated outside the United Kingdom with a short-term credit rating of at least F1+ and a long term rating of A+.***

- ***United Kingdom building societies with a short term credit rating of at least F1 or Government backed.***

- ***All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003)*** *{ratings are not issued for most of these bodies}.*

- ***Multilateral development banks (as defined in SI 2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA.***

- ***All banks & building societies must have a bank viability rating of at least bbb – except where the counterparty is UK Government backed (fully or partial).***

- ***Additionally, all banks and building societies to which the Authority may lend funds must have a support rating of no more than 3 (1 being the highest support rating).***

- ***Money Market Funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies: Standard and Poor's; Moody's Investor Services Ltd; or Fitch Ratings Ltd.***

- ***Deposits must only be placed with Money Market Funds subject to individual signed management agreements.***

- In addition to the above criteria, the following limits will also be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):

  Up to £15 million:

  - **UK incorporated banks with a long term credit rating of at least AA;**
  - **Overseas banks that have a long term credit rating of at least AA;**
  - **Multilateral development banks;**
  - **Local authorities and other public bodies; and**
  - **Money market funds.**

  Up to £12 million:

  - **Government backed UK banks and UK building societies and their subsidiaries.**

  Up to £8 million:

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- **Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within the Investment Strategy);**

- **Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within the Investment Strategy);**

- **UK Building societies with long term credit rating of at least A; and**

- **Government backed overseas banks and their subsidiaries.**

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 Council's business/service objectives will be thereby compromised.

Wiltshire Council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. Wiltshire Council 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 (OR give details of any more specific targets). Short term borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of liquidity management:

- Standby facilities – Wiltshire Council has an overnight treasury account with its main bankers, where surplus cash, required in the very short term, is placed until the next working day. Additionally, the Council has a number of (currently five) money market funds, each of which, potentially, holds up to £15 million that can be accessed instantaneously. These funds are operated through a dealing platform, supplied be ICAP, called "MyTreasury", the cut off times for dealing vary between 12:30 pm and 13:30 pm each day as follows:

    - Ignis – 13:30 pm
    - Goldman Sachs – 12:30 pm
    - Black Rock – 12:45 pm

- JP Morgan – 13:00 pm
- Federated Prime Rate – 13:00 pm

- Bank overdraft arrangements - a £500,000 overdraft has been arranged as part of the banking services contract. Any overdraft, up to this limit, is charged at 2.5% over base rate plus £4 a day. The overdraft is assessed on a 'suite of accounts' basis for all the Council's bank accounts. This facility is available purely to cover the rare occasions where unforeseen (net) cash out flows occur. However, the Council, through the treasury team, will always endeavour to attain a balanced daily position.

- Short-term borrowing facilities – Wiltshire Council accesses temporary loans through approved brokers on the London money market, in line with the approved Treasury Management Strategy.

- 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 Council's finances, against which it has failed to protect itself adequately.

Wiltshire Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements 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, whilst, 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 subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Upper Limits on Fixed Interest Rate Exposures and Variable Interest Rate Exposures

The upper limit for fixed interest rate exposure is 100% of net outstanding principal sums (Treasury Indicator 4a).

The upper limit for variable interest rate exposure is 50% for 2014-15, 50% for 2015-16 and 55% for 2016-17 of net outstanding principal sums (Treasury Indicator 4b).

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

No specific trigger points are assigned for initiating action in respect of managing changes to interest rate levels. The decision as to whether to borrow at fixed or variable rates and/or to undertake restructuring of existing debt will depend upon:

- overall market and economic circumstances at the time;
- the level of borrowing that the Council requires, relative to its existing debt; and
- the level of fixed and variable interest costs incurred on existing debt relative to current interest rates.

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

- **Forward Dealing**
  Forward dealing will only be applied on the advice of external treasury advisers.

- **Callable deposits** (fixed investments for up to 5 years at borrower's option)
  The use of callable deposits is not currently considered as part of the annual treasury management strategy.

- **LOBOs** (borrowing under lenders option/borrowers option)
  The use of LOBOs is considered as part of the annual borrowing strategy and will only be applied on the advice of external treasury advisers. The Council currently has £61m of its borrowing through LOBOs, all of which was arranged using advice from the Council's treasury advisers.

Typically, longer-term borrowing will only be undertaken at fixed rates if this is not likely to result in an increase in the current average rate of interest incurred on existing debt. Where cost effective and practically achievable, restructuring of existing debt will only take place if it will result in a lowering of the average rate of interest incurred on debt following the restructuring and/or result in the smoothing of the maturity profile of that debt to reduce the future risk of unfavourable funding conditions.

1.4 EXCHANGE RATE RISK MANAGMENT

Wiltshire Council has a minimal exposure to exchange rate risk as it may only enter into investments and loans in sterling for treasury management purposes (see Treasury Management Strategy). The Council will manage any exposure to fluctuations in exchange rates, in the rare event that this should occur, so as to minimise any detrimental impact on its budgeted income/expenditure levels.

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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.4.1 Approved criteria for managing changes in exchange rate levels

Wiltshire Council has minimal exposure to exchange rate risk as a result of its normal business activity. If a contractual obligation to receive income or make a payment in a currency other than sterling occurs, forward foreign exchange transactions will be considered, with professional advice, to eliminate or minimize currency risk. Unexpected receipts of foreign currency income will be converted into sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment.

1.5 REFINANCING RISK MANAGEMENT

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

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

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

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

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

Rescheduling will be reported to the Cabinet at the next available opportunity following its action.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.5.2 Projected Capital Investment Requirements

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

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

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

In considering the affordability of its capital plans, Wiltshire 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* 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.)

Wiltshire Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), and other long term liabilities (73).

1.5.4 Capital Receipts Generated by the HRA

Under the new Right to buy Legislation which increased the level of discounts available to tenants to purchase their home, the pooling system was amended. Now approximately 5075% of capital receipts generated by RTB and other dwelling sales are pooled 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). The remaining 50% is retained by the local authority, with around 25% kept as general capital receipts, and the remaining 25% to be kept to allocate to new housing developments. The aim of this final 25% is to replace every house lost under RTB with a new build home.

1.5.5 PFI, Partnerships, ALMOs and guarantees

The council currently has 2 live PFI schemes, one was for the building and running of 3 schools in the North Wiltshire area, the other is for the provision of up to 240 new homes across Wiltshire. A third scheme was in place to run the Monkton Park offices in Chippenham, however the facilities management and running of the building was brought back in house, so only the payment to the bank for the cost of building the building is incurred.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.6 LEGAL AND REGULATORY RISK MANAGEMENT

Legal or regulatory risk is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and as a result the Council incurs a loss.

Wiltshire Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[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 affect with the Council, particularly with regard to duty of care and fees charged.

Wiltshire Council 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 Council.

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. The major relevant documents currently 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 (revised 1.4.10)
- 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 (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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Revised Guidance on Investments CLG 1.4.2010
- Localism Act 2011
- 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)
- CLG Document " Implementing self-financing for council housing" – 1 Feb 2011
- CIPFA Consultation "Proposed Capital Finance Arrangements Under The New Housing Finance System" – Feb 2011
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- 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
- 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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.6.2 Procedures for evidencing the Councils Powers/Authorities to counterparties

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

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

Wiltshire Council will bring this to the attention of interested counterparties as necessary. Evidence of the Wiltshire Council scheme of delegation and officers authorized to deal on behalf of the Council is sent to new counterparties.

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, Moody's and Standard and Poor's. Further restrictions are operated using Fitch ratings specifically.

1.6.3 Statement of the Councils Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Corporate Directors 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 Associate Director of Legal and Governance; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5 Associate Director, Finance, Revenues & Benefits and Pensions (Section 151 Officer)

The duty of the Associate Director, Finance, Revenues & Benefits and Pensions (Section 151 Officer) is to ensure that the financial affairs of the Council are conducted in a prudent manner and to 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 & CORRUPTION AND CONTINGENCY MANAGEMENT

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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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

The Council will therefore:

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- 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.
- 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.

At a general level the Council has adopted a “Whistle Blowing” policy that seeks to reassure staff through the publication of procedures involved in raising concerns about fraud and/or corruption taking place within the organisation, and an Anti-Fraud and Corruption Policy as part of the process of managing risk and raising risk awareness in the organisation. All staff have been issued with an Internet, E-mail and Computer Use policy that also includes instructions on general computer use. This covers the use of secure system passwords, and the use of screen-savers and associated passwords.
The Council’s banking information for Treasury Management is accessed via the HSBCnet online facility, to which five treasury management staff have access. Whilst these individuals can initiate the payment of funds to third parties and transfers between accounts all payments or transfers must then be authorised by (different) one of five signatories. Overall system administration is carried out by three members of staff from IT. No overlap occurs.

More detailed arrangements are set out in the Schedule to TMP5.

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

Authority

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

Procedures

- Daily bank balances are determined from bank information, which is currently available on the HSBCNet platform, via the Internet. Regular transfers are made between the main bank account and the other (payment) accounts to replenish balances.

- Payments or receipts in respect of loans and loan interest are identified from the information maintained within the Treasury Management database.
- Other payments and receipts are identified via the cash flow (diary maintenance) element of the Treasury Management database.
- Any surplus cash is invested on the basis of the daily cash flow forecast, according to security of investments, liquidity requirements and prevailing market rates. Any shortfalls will be covered by money held in money market funds or call accounts. Should funds not be available from these accounts, any shortfall will be covered by short term borrowing.

Investment and borrowing transactions

- A detailed register of all loans and investments, including counterparty and broker details, is maintained in the Logotech Treasury Management system.
- Written confirmation is received and verified against the dealer's records for the transaction and then filed electronically on the directory.
- Any discrepancies are immediately reported to the broker or institution for resolution.
- All transactions placed through brokers are confirmed by a broker confirmation showing details of the loan/deposit arranged, which are checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the broker or institution for resolution.
- Contract notes for transactions carried out in the money market are received and checked as they come in.

Regularity and security

- Lending is only to institutions on the Approved List of Counterparties.
- The Logotech Treasury Management system prompts the dealer that money borrowed or lent is due to be repaid.
- All loans raised and repayments are made directly to and from the County Fund account.
- Counterparty limits are set for every institution that the Council invests with. Where individual counterparties are part of a group, the limit applies to the group as a whole.
- Brokers have a list of named dealers authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals on HSBCnet.
- No member of the treasury management dealing team is an authorised signatory.
- Payments can only be authorised by an authorised signatory.
- HSBCNet can only be accessed by password and authorisation can only be achieved by using CHIP & PIN card access.
- The Logotech Treasury Management system can only be accessed by a password.

- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out daily from the bank statement to the financial ledger.
- The Logotech Treasury Management system balances are verified to the HSBCnet balance each day.

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 Logotech Treasury Management system.
- The Logotech Treasury Management system automatically calculates periodic interest payments for PWLB and other (market) 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 Logotech Treasury Management system. Housing Revenue Account (self financing) loans are separately identified.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund and, where appropriate and as agreed, the Housing Revenue Account (HRA) recharge. The major part of the HRA recharge is based on the PWLB loans taken out to fund the self financing settlement, with an additional amount, calculated by reference to the average weighted interest rate for the top (in terms of highest interest rate) four General Fund loans.

1.7.2 Emergency and Contingency Planning Arrangements – Disaster Recovery Plan

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

The Council has written procedures in place as part of the ‘Corporate Business Continuity Plan’.

Regarding treasury management activities, the access of daily bank balance information and initiation of deposit payments and loan repayments is via HSBCnet. As such in the event of a system failure HSBCnet can be accessed at any location where a computer with internet access is available.

Copies of the Logotech Treasury Management System software (LMS) are made daily and held in the banker’s safe. In the event of the loss of the software and/or paper files, records of transactions and outstanding loans and deposits are held both by counterparties and broker intermediaries, and it should be possible to recreate these without undue difficulty.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

1.7.3 INSURANCE COVER DETAILS.

Fidelity Guarantee

Cover is arranged against fraudulent misappropriation of funds by employees. This includes direct loss of money or goods belonging to Wiltshire Council for which we are legally responsible.

The cover is for theft committed by an employee and extends to temporary agency staff. The definition of an employee is somebody who has a contract of service or apprenticeship under a government-training scheme with the Council. The policy excludes persons temporarily employed as drivers, computer operators or programmers.

The excess on this policy is £100,000 and the cover is up to £10 million.

Professional and Officials' Indemnity Policy

Wiltshire Council insures against its liability for damages and losses arising from error or omission occurring or committed by an officer/employee.

There is an excess of £50,000 on this policy. The cover is limited to £5 million.

1.8 MARKET RISK MANAGEMENT

Market risk is the risk of market fluctuations in the value of the principal sums the Council borrows and invests.

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

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate.

The limits are determined and set through the Annual Investment Strategy, which forms part of the Treasury Management Strategy, approved by Councillors prior to the start of each financial year.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

Investment of the Council's normal cash flow requirements will be in specified investments, as prescribed in "The Guidance". The categories of organisations with which investments will be placed and the minimum high credit quality required for each category are those set out in the minimum requirements for high credit quality within the Council's approved Annual Investment Strategy.

Investments in money market funds may be made if the fund has a high credit rating (AAA), as prescribed in the minimum requirements for high credit quality.

For specified investments made under the recommendations of the Council's treasury adviser, the approved policy must be followed and is bound by the minimum requirements for high credit quality.

In addition, using the professional judgement of the Council's treasury advisers, non specified investments may be made in UK Government Bonds (Gilts) and in multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a high credit rating, as prescribed in the minimum requirements for high credit quality.

Such investments are the only non-specified investments authorised for use and will only be:

a) in sterling
b) in the case of UK Gilts, for a maximum of 50 years; and
c) for investments maturing in excess of 12 months, limited to £30 million.

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TMP 2 PERFORMANCE MEASUREMENT

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 2 PERFORMANCE MEASUREMENT

2.1 EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS

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

a. monthly reviews carried out by the treasury management team
b. quarterly and other ad hoc reviews with our treasury management consultants
c. annual review after the end of the financial year as reported to Cabinet and 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 Associate Director, Finance, Revenues & Benefits and Pensions, Chief Accountant and Principal Accountant (Capital) receive a quarterly treasury update report that reviews actual activity against the Treasury Management Strategy Statement and cash flow forecasts. This will include:

a) Total debt
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 quarterly reviews with our consultants to review the performance of the investment and debt portfolios. In addition, they provide a monthly investment report based on information on deposits outstanding that the treasury management team submit to them.

2.1.3 Annual Review after the end of the financial year

An Annual Treasury Report, which reviews treasury management performance against the TMSS for the year, is submitted to the Cabinet and full Council after the close of each financial year. This report contains the following:

a. total debt and investments at the beginning and close of the financial year and average interest rates
b. borrowing activity for the year compared to strategy
c. investment activity for the year compared to strategy
d. explanations for variance between original strategies and actual performance
e. any debt rescheduling carried out during the year
f. actual borrowing and investment rates available through the year
g. comparison of return on investments to the investment benchmark
h. compliance with Prudential and Treasury Indicators
i. other treasury management performance related activities

TREASURY MANAGEMENT PRACTICES - SCHEDULES

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the Council in respect of debt and investments compares with other authorities holding 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
- Capita Asset Services Benchmarking Club
- Other appropriate available comparators.

In drawing any conclusions, the Council will bear in mind that the risk characteristics of other council's treasury management operations may differ from those of Wiltshire Council.

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

2.2.2 Investment

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

a. in house investments: 3 month LIBID

b. cash fund manager (not currently applicable)

Performance will also be measured against the local authority 'universe' and a selected peer group, which relates to authorities that are part of the Capita Asset Services Benchmarking Group.

2.3 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY IN TREASURY MANAGEMENT

2.3.1 Banking services

The Council's current banking arrangements are on a rolling annual review basis, subject to an agreed facilities document prepared by the Council's bankers.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

2.3.2 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.

2.3.3 Consultants'/advisers' services

Wiltshire Council's policy is to appoint full-time professional treasury management consultants, who also provide leasing advice (if/when required).

Wiltshire Council recognises that, in line with CIPFA guidance, "the overall responsibility for treasury management must always remain with the Council." As such, the Council will, in addition to the appointment of treasury consultants/advisers, perform its own analysis of market and investment conditions and the suitability of counterparties, using any available tools such as the Internet and financial press.

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

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

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TMP 3 DECISION-MAKING AND ANALYSIS

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

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 uses a dedicated computerised (Logotech) database system in which all investment and loan transactions are recorded. Full details are included in the user manual. The following records will be maintained:

- ‘Projected Balance’ report downloaded from HSBCnet.
- Detailed transaction report from Logotech saved on the daily dealing sheet showing the projected position for the day before any action is taken. Details of each loan or deposit are recorded in writing on this report when the deal is made with the broker.
- Brokers and counterparties confirmation for investment and temporary borrowing transactions, saved on the directory under the format of “Month, date of month, Counterparty and Broker.
- Confirmations from borrowing/lending institutions where deals are placed directly
- PWLB loan confirmations
- PWLB debt portfolio schedules
- Money Market deal confirmations

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 they lead to value for money
- Performance information and monitoring

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 it may become exposed

b) Be certain about the legality of the decision reached, the nature of the transaction and that all authorities to proceed have been obtained

c) Be content that the documentation is adequate to deliver the Council’s objectives, 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 confirmed as 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 Council's future plans and budgets

b) Evaluate the economic and market factors that might influence the manner and timing of any decisions to borrow

c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships

d) Seek to reduce the overall level of financing costs/'smooth' maturity profiles by considering alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

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 that may expose the Council to changes in the value of its capital

c) Determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- **Borrowing**
  The assessment of borrowing requirements, the availability of authorisations and approvals, the assessment of borrowing sources, interest rates, loan periods, repayment options, and the adequacy of documentation.

- **Lending**
  The assessment of: Security; then Liquidity; then Yield (the SLY principle), including: risk exposure; the creditworthiness of counterparties; the amount (if any) available; the nature and period of the investment; the level of returns; and the evaluation of documentation.

- **Funding decisions**
  Funding requirements and authorisations, assessment of alternative sources, the review of economic and market factors, repayment profiles and periods/duration, variable and fixed interest rates, alternatives to borrowing and revenue cost implications.

- **Debt repayment and rescheduling**
  The restructuring of existing long-term loans through premature re-payment and replacement to achieve economies in interest rate costs and to manage maturity profiles.

- **Review of Financial Instruments and treasury management techniques**
  The consideration, approval and use of new financial instruments and treasury management techniques, including legality, purpose, suitability, degree of risk, cost, and the status of counterparties.

- **Managing risk**
  The management of the underlying risk associated with the Council's capital financing and surplus funds activities.

- **Managing Cash Flow**

- **Banking activities**
  The review, monitoring and tendering of the Council's main banking activities.

- **Externally Managed Cash (other than Wiltshire Pension Fund) – <u>No cash is currently managed externally</u>:**
  The appointment and assessment of managers, available instruments, limits, objectives and reporting, security and repayment of funds, indemnities, performance criteria, fees and documentation.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- **Leasing**
  The appointment of lease brokers and/or advisors (if required, currently via treasury advisers – Capita Asset Services), the identification of potentially leasable assets procured by the Council, the setting up of lease agreements and ongoing monitoring of arrangements.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Associate Director, Finance, Revenues & Benefits and Pensions has the delegated authority to approve the use of any investments, subject to the Annual Investment Strategy and prudential limits approved by members, annually as part of the Treasury Management Strategy Statement.

The Annual Investment Strategy sets out the parameters for the approved instruments for investments and can be accessed via the Treasury Strategy approved by full Council at its February meeting each year.

4.3 APPROVED TECHNIQUES

The Council will generally only enter into treasury transactions without recourse to the professional judgement of its advisers in respect of the management of its day to day cash flows. This will involve the negotiation of fixed or variable rate short-term loans and deposits through the London money market or direct dealing with individual counterparties, on an immediate settlement basis.

Occasionally it may be necessary to negotiate such transactions on a forward basis, if circumstances are such that deferring a transaction may result in operational difficulties (such as staff absences or anticipated market conditions).

For the following, it is anticipated that specialist advice will be taken:

- Euro-Sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges.
- Forward dealing up to 364 days (5 years for debt free local authorities – not currently applicable to Wiltshire)
- LOBO loans – lender option, borrower option loan instruments
- The use of structured products such as callable deposits
- Raising of loans for periods in excess of 364 days
- Investment of cash for periods in excess of 364 days

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government Act 2003. Within this limit the Council has a number of approved methods and sources of raising capital finance. These are the borrowing instruments and other off balance sheet instruments that may be used to raise capital finance.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- Overdraft or other short term/temporary borrowing from the Bank of England or an authorised institution.
- Loans from the Public Works Loan Board.
- Borrowing from other local authorities.
- Borrowing from commercial banks (including LOBOs).
- Borrowing from the money markets
- Local authority stock issues
- Internal.
- Any other borrowing instrument, subject to the approval of the Secretary of State and the consent of H.M. Treasury.
- Leasing (not operating leases).
- Government and EC Capital Grants
- Lottery monies
- PFI

The Council places no limits on borrowing sources. However, total borrowing is limited by the Authorised Limit and Operational Boundary, as approved by full Council as part of the Annual Treasury Management Strategy (also see 4.6 below).

Borrowing will only be in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Associate Director, Finance, Revenues & Benefits and Pensions has delegated powers in accordance with Financial Regulations 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 set outs the limits and guidelines for the use of each type of investment instrument.

4.6 BORROWING LIMITS

Borrowing limits are determined by the adoption of Prudential Indicators, as part of the Annual Treasury Management Strategy.

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TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COUNCIL/EXECUTIVE LEVEL

Cabinet / Council

- Full Council/Cabinet will receive and review reports on treasury management policies, practices and activities
- Full Council will approve the Council's adopted clauses and Treasury Management Strategy, including the Annual Investment Strategy, Prudential Indicators, and treasury management practices.
- The Associate Director, Finance, Revenues & Benefits and Pensions will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- Full Council/Cabinet will consider and approve the Budget.
- The Associate Director, Finance, Revenues & Benefits and Pensions will approve the segregation of responsibilities.
- Cabinet will receive and review quarterly monitoring reports and act on recommendations.
- Full Council will receive and review the annual outturn statement.
- Approving the selection of external service providers and agreeing terms of appointment will be decided by the Associate Director, Finance, Revenues & Benefits and Pensions.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

Segregation of duties, as well as a system of internal checks and controls, is regarded as fundamental in the avoidance of fraud and corruption and also in minimising errors.

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	Authorisation of Journal
	Posting of accounting entry
Authorisation/Payment of Deal	Entry onto system
	Approval and payment

As a basic principle, the Council seeks to ensure the following:

- That the approval of treasury strategy and policy is separated from the execution of policy.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- That the initiating of treasury transactions is separated from the settlement of transactions.

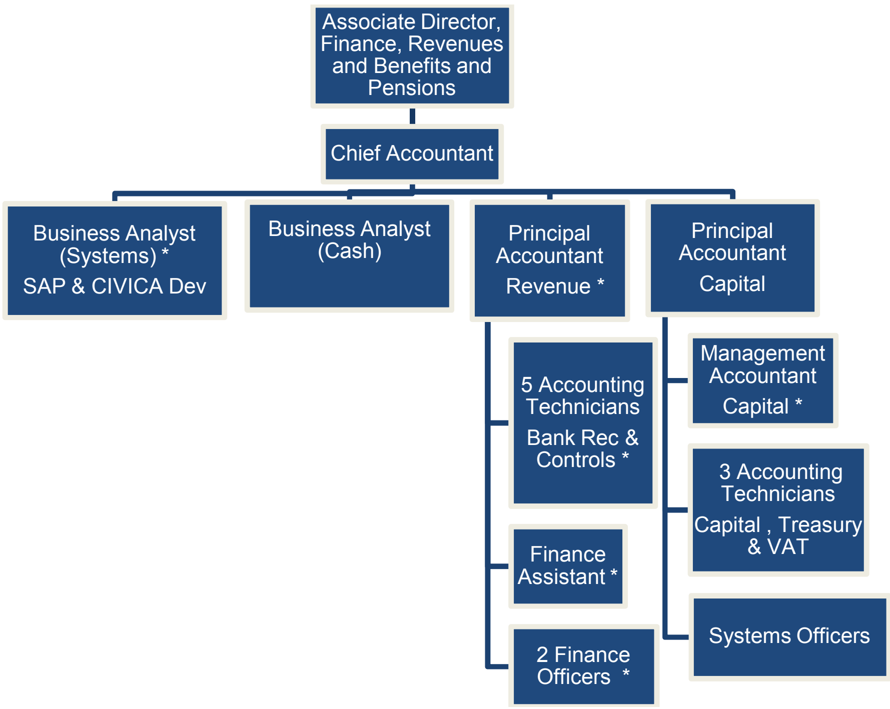
- That bank reconciliation is carried out independently of the treasury function.

Segregation of duties is in place for the making of electronic payments via HSBCnet. The payments are initiated mainly by the nominated Accounting Technician and, in her absence, either of the two other Accounting Technicians or either of the two Business Analysts. The payments must then be authorised by one of the five Council signatories – Two Heads of Finance, two Principal Accountants and the Head of Pensions.

Bank reconciliation is carried out within the Business Services team.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

TREASURY MANAGEMENT STRUCTURE



* Not involved in Treasury function

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES

5.4.1. The Associate Director, Finance, Revenues & Benefits and Pensions (and S151 Officer)

The Associate Director, Finance, Revenues & Benefits and Pensions will:

TREASURY MANAGEMENT PRACTICES - SCHEDULES

- Recommend clauses, treasury management policy and practices for approval, reviewing the same on a regular basis, and monitoring compliance
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Agree temporary variations of counterparty credit limits
- Where appropriate, recommend the appointment of external service providers in accordance with Council's Financial Regulations and Treasury Management Strategy
- If applicable, approve investment policy for external cash managers and other external service providers
- If applicable, carry out interim reviews of external cash managers' performance
- Review the performance of the treasury management function and promote best value reviews
- Establish a measurement and reporting process that highlights significant variations from expectations
- Submit regular treasury management policy reports to cabinet and to full Council.
- In setting the prudential indicators, the Associate Director, Finance, Revenues & Benefits and Pensions will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure that the Council's financial plans are affordable, prudent and sustainable in the long term
- Make reports to the Council under S114 of the Local Government Finance Act 1988 if he/she considers the Council is likely to get into a financially unviable situation
- Submit budgets and budget variations in accordance with Financial Regulations
- Ensure the adequacy of internal audit and liaison with external audit

The Associate Director, Finance, Revenues & Benefits and Pensions has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The Associate Director, Finance, Revenues & Benefits and Pensions may delegate the power to borrow and invest to members of their staff. Three Accounting Technicians and two Business Analysts are the only officers who may conduct dealing transactions, or staff authorised by the Associate Director, Finance, Revenues & Benefits and Pensions to act as temporary cover for leave/sickness. All transactions must be authorised as set out within this Statement of Responsibilities.

The Associate Director, Finance, Revenues & Benefits and Pensions will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Associate Director, Finance, Revenues & Benefits and Pensions 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.

It is also the responsibility of the Associate Director, Finance, Revenues & Benefits and Pensions to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Other Treasury Staff

Business Analysts (Cash & Treasury) will:

- Prepare Treasury Management Practices and Schedules
- Ensure that day to day activities accord with Treasury Management Practices
- Ensure compliance with policies, limitations and directions
- Maintain relationships with third parties and external service providers
- Manage the overall treasury function
- Monitor performance on a day to day basis
- Ensure appropriate divisions of duty
- Identify and recommend opportunities for improved practices

Accounting Technicians will:

- Provide cover for the execution of all transactions within agreed policy and subject to appropriate approvals
- Produce regular performance reports
- Produce cash flow forecasts on an annual and monthly basis
- Execute all transactions within agreed policy and subject to appropriate approvals

In practice, the Business Analyst is responsible for the overview of day to day treasury activities, and in making recommendations to the Associate Director, Finance, Revenues & Benefits and Pensions on the treasury strategy.

As such, the Business Analyst will be responsible for the following specific tasks:

- Preparation of the Annual Treasury Management Strategy report.
- Preparation of quarterly Treasury Management Strategy reports, including mid-year and annual outturn reports, and approval of any other regular Treasury reports.
- Recommendations on long term borrowing and investment of cash balances.
- Overview of cash flow forecasts, daily dealing, accounting and record keeping, and general implementation of the treasury strategy.
- Update of Treasury Management Practices and accompanying Schedules.
- Provide cover, as necessary, for the daily monitoring of bank balance and dealing normally carried out by the accounting technicians.
- Maintenance of treasury accounts.

The Accounting Technician will be responsible for the following tasks:

- Preparation of cash flow forecasts
- Reconciliation of loan/deposit confirmations to Logotech
- Review and update counterparty list and limits
- Carrying out daily monitoring of bank balances and dealing as appropriate
- Maintenance of Logotech and spreadsheets
- Initiating transfers between the Council's bank accounts, as necessary
- Preparing CHAPS payments for authorisation by approved authorisers

5.4.3. The Monitoring Officer – The Director of Legal and Democratic Services

The Director of Legal and Democratic Services will:

- Ensure compliance by the Associate Director, Finance, Revenues & Benefits and Pensions with the treasury management policy statement and treasury management practices and that they comply with the law.
- Be satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Give advice to the Associate Director, Finance, Revenues & Benefits and Pensions when advice is sought.

5.4.4. Internal Audit (SWAP)

The responsibilities of Internal Audit are to:

- Review compliance with approved policy and treasury management practices
- Review division of duties and operational practice
- Assess value for money from treasury activities
- Undertake probity audit of the treasury function

5.5 ABSENCE COVER ARRANGEMENTS

Cover arrangements for operational treasury activities are detailed at 5.4.2.

5.6 DEALING LIMITS

There are no dealing limits for individual posts, however, there are limits, which are approved as part of the Annual Investment Strategy and restrict the total amount that can be placed with counterparties when lending (where an individual counterparty is a member of a group, the limits are applied to the group as a whole).

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 within Logotech. See TMP 11.1.2.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

5.8 POLICY ON BROKERS' SERVICES

The Council's policy is to allocate business between brokers equitably.

However, (ideally) brokers are used to access the best rate possible for short-term money market transactions that the Council may wish to undertake.

Market conditions permitting, it is acceptable to ask only one broker to try to find or place money for a short term fixed date loan or deposit, providing it is clearly understood that the "going rate" is obtained. This is known as dealing 'firm', and should only be carried out after market rates for the day have been obtained.

In these circumstances, the deal will only be passed to another broker if the first broker cannot place the money or find a source of funds.

For larger deals, longer periods, for dealing on notice, or where market conditions are difficult, it is appropriate to deal 'under reference' to ensure the best market rate is obtained. In this instance, the broker must refer back to the dealer before the transaction is confirmed.

The Council's approved lending list should be sent to the brokers whenever it is updated. The dealer must only instruct the broker to place money with counterparties on the approved lending list. If they offer names not on the list, these must not be accepted.

5.9 POLICY ON TAPING OF CONVERSATIONS

The Council does not tape conversations with counterparties or brokers.

5.10 DIRECT DEALING PRACTICES

The Council will consider dealing direct with counterparties if it is appropriate, the counterparty is on the credit list and the Council believes that better terms will be available. A copy of the counterparty's Standard Settlement Instructions (SSIs) is required before funds are placed. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is necessary, as follows:

- Certain deposit and business reserve accounts
- Call accounts
- Money Market Funds

5.11 SETTLEMENT TRANSMISSION PROCEDURES

Transmission of funds in settlement of dealing transactions is made using the Clearing Houses' Automated Payments System (CHAPS). CHAPS are currently processed via HSBCnet.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

The payments are initiated mainly by an Accounting Technician and, in their absence, by a Business Analyst. The payments must then be authorised and submitted by one of the five Council signatories – two Heads of Finance, two Principal Accountants or the Head of Pensions.

5.12 DOCUMENTATION REQUIREMENTS

On a daily basis a Logotech detailed report is produced showing the position for the day and all deals must be recorded on the daily dealing sheet.

All payments are currently made via HSBCnet and the completed payment template must be sent to the authoriser. The authoriser will check this payment template against the lending list and the broker or counterparty confirmation, or other relevant documentation if the payment does not relate to deposits or repayment of loans.

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD PARTY FUNDS

Wiltshire Council provides treasury management services for the Police and Crime Commissioner for Wiltshire and Swindon. It manages these funds on a segregated basis on contractual (SLA) terms.

Wiltshire Council has a contract to provide treasury management services for the Wiltshire Pension Fund. It manages these funds on a segregated basis on contractual (SLA) terms.

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL PROGRAMME OF REPORTING

- Reporting requirements before the start of the year:
  - review of the Council's approved clauses, treasury management policy statement and practices
  - Treasury Management Strategy Statement Report on proposed treasury management activities for the year which incorporates the Annual Investment Strategy and Minimum Revenue Provision Policy Statement

- Quarterly performance reports

- Annual review report after the end of the year, before 30 September

6.2 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

The Annual Treasury Management Strategy Statement sets out the 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.

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.

The Annual Treasury Management Strategy Statement is concerned with the following elements (where appropriate):

- Prudential and Treasury Indicators
- Current Treasury portfolio position
- Borrowing requirements
- Prospects for interest rates
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- Investment Strategy
- Creditworthiness policy
- Policy on the use of external service providers
- Any extraordinary treasury issues
- The MRP strategy
- Treasury Management Practices (TMPs)

The Annual 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 Annual Treasury Management Strategy Statement it will also receive, as an appendix to the main strategy report, a report on the Annual Investment Strategy which will set out the following:

- The Council's risk appetite in respect of security, liquidity and optimum performance
- The definition of high credit quality, to determine what are specified investments as distinct from non specified investments
- Which specified and non specified instruments the Council will use
- Whether they will be used by the in house team, external managers or both (if applicable)
- 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
- Which credit rating agencies the Council will use
- How the Council will deal with changes in ratings, rating watches and rating outlooks
- Limits for individual counterparties and group limits
- Country limits/minimum credit ratings
- Levels of cash balances
- Interest rate outlook
- Budget for investment earnings
- Use of a cash fund manager (if applicable)
- 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 as part of the Annual Treasury Management Strategy Statement.

6.5 POLICY ON PRUDENTIAL AND TREASURY INDICATORS

- The Council approves, before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
- The responsible officer will incorporate these limits into the Annual Treasury Management Strategy Statement and ensure 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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

6.6 QUARTERLY PERFORMANCE REPORTS/MID-YEAR REVIEW

The Council will review its treasury management activities and strategy on a quarterly basis. This review will consider the following: -

- activities undertaken
- variations (if any) from agreed policies/practices
- quarterly performance reports, including an interim report
- regular monitoring
- monitoring of treasury management indicators for local authorities

6.7 ANNUAL REVIEW REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to Cabinet and then to 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:

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

6.8 MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every quarter by the Accounting Technician and will be presented to the Associate Director, Finance, Revenues & Benefits and Pensions and Chief Accountant.

These reports will contain the following information:

- a summary of transactions executed and their revenue (current effects);
- measurements of performance including effect on loan charges/investment income;
- degree of compliance with original strategy and explanation of variances.
- any non compliance with prudential limits or other treasury management limits.

6.9 PUBLICATION OF TREASURY MANAGEMENT REPORTS

All Treasury Management Reports that are submitted to Cabinet and/or Council (this would exclude Management Information Reports in 6.8) are available on the Council's website and can be accessed via the minutes of the relevant meeting.

APPENDIX C

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

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 & TREASURY INDICATORS

The Associate Director, Finance, Revenues & Benefits and Pensions will prepare a three year medium term financial plan with Prudential 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 Associate Director, Finance, Revenues & Benefits and Pensions will exercise controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 LIST OF INFORMATION REQUIREMENTS FOR EXTERNAL AUDITORS

The following is a list of information that should be made available in audit pack format for the 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 Logotech
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Treasury Management Practices
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

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- External fund manager(s) valuations including investment income schedules and movement in capital values, where applicable.

7.4 MONTHLY BUDGET MONITORING REPORT

Monthly budget monitoring reports are produced for the Associate Director, Finance, Revenues & Benefits and Pensions and reported to Cabinet on a quarterly basis. The reporting is intended to highlight any variances between budgets and actual spend in order that the Council can assess its financial position.

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Preparation of cash flow forecasts

Cash flow projections are prepared annually and daily.

Annual

The annual cash flow forecast is undertaken each February. The forecast is initially built up from the Council's revenue and capital budget, converted to a cash basis.

This overall annual forecast position is then broken down into more detail and profiled monthly. For general creditor payments, this is estimated on the basis of previous years' cash flows. Net pay and third party deductions are explicitly calculated from estimated employee costs, whilst major cash flows such as cash advances to schools, maturing long term loans, precept and government grants are identifiable on a planned receipt or payments basis. 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.

Daily

Each day a projected balance report for the Councils main bank accounts is obtained via HSBCnet and entered into Logotech. Loans or advances maturing are automatically entered into the days cash flow forecast by the system.

The projected balance is adjusted for known payments and receipts, resulting in a daily forecast balance, on the basis of which a decision is made on what action (if any) to take.

8.2 BANK STATEMENTS PROCEDURES

8.2.1 Salaries, Wages and Pensions

The statements are received daily. The account is balanced at the end of each month to a nil balance. Business Services staff reconcile the bank statement balance to the general ledger at the end of each month. Each time payments are processed totals are provided to the Business Services section to enable bank transfer journals to be completed and the Treasury section for cash flow purposes and to allow permission to be sought if the payment total exceeds the Council's daily limit.

8.2.2 County/General Fund

All income is credited to this account.

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The movements on the bank statements are balanced on a daily basis with the funds allocated to invoices and codes. The account balance is reconciled to GL at the end of each month.

8.2.3 Accounts Payable

The statements are received daily and checked for returned items. The account is balanced to nil at the end of each month. The balance on the account is reconciled to GL at the end of each month.

8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

The Council usually pays invoices 30 days from invoice date. This is set as the default on the Accounts Payable system.

Departments can override this default by using ‘terms codes’ to pay either before 30 days or at a future date beyond 30 days.

It is for the spending department to agree the terms with creditors if this is not to be 30 days.

Invoices entered into the system are paid when the due date based on invoice date and terms is reached.

8.4 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be, either, where appropriate, banked by the authorised officer(s) responsible (e.g. “external” Council establishments) or passed to the Business Services Banking Team to deposit in the Council’s bank account. Income received by the Council is credited to the County Fund on a daily basis. Income arrives via various methods. Departments collect sundry income and this is paid in via cash sheets. Cheques are received via the post either to credit General Ledger income codes or to pay outstanding invoices issued on the Accounts Receivable system. Income is processed via the Civica cash receipting system.

8.5 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 Associate Director, Finance, Revenues & Benefits and Pensions.

APPENDIX C

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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 TERRRORISM 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 that reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following:

- evaluate the prospect of laundered monies being handled by them
- determine the appropriate safeguards to be put in place
- require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- make all its staff aware of their responsibilities under POCA
- appoint a member of staff to whom they can report any suspicions. This person is the Associate Director, Finance, Revenues & Benefits and Pensions (Deputy – the Director of Legal and Democratic Services and Monitoring Officer)
- 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.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Associate Director, Finance, Revenues & Benefits and Pensions (Deputy – the Director of Legal and Democratic Services 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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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 repaying loans.

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 10 TRAINING AND QUALIFICATIONS

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

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

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review (appraisal) 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 Chief Accountant 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

Formal records of training received by treasury staff are kept by the individuals involved. All course material is retained for as long as it is deemed relevant.

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 firsthand experience of treasury management operations.

10.4 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

Where the Associate Director, Finance, Revenues & Benefits and Pensions is a member of CIPFA, there is a professional need for them to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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.

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

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, the Council will ensure that it fully understands what services are being provided and that they meet its needs, especially in terms of being objective and free from conflicts of interest.

The Council 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

- The name of the supplier of the service is HSBC plc
- Regulatory status – banking institution authorised to undertake banking activities by the FSA
- The branch address is: 46 Fore Street, Trowbridge, BA14 8EL
- The contract commenced on 1 April 2006, running for three years with the option to extend for a further two years. When the Council obtained unitary status from 1 April 2009 the contract was extended and has been renewed annually by facilities letter
- Cost of service is variable, based on charge per item and individual ancillary service charges (see Agreement)
- Payments are due monthly
- The Council may terminate the Agreement at any time under the Bank's Business Banking Terms and Conditions. The Bank requires written notice, unless using an account switching service provided by a new bank, in which case the bank will accept the instruction to close the account from the new bank acting on the Council's behalf provided it appears to have been signed in accordance with the Council's bank mandate.

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11.1.2 Money-broking services

In addition to direct dealing, the Council will use money brokers for borrowing (temporary and long term) and investment. It will seek to give an even spread of business amongst the approved brokers, subject to availability of counterparties and rates offered. The list of brokers may be reviewed from time to time and brokers may be changed if appropriate.

Names of current brokers:

- Intercapital (Europe) Limited
- Tullett Prebon
- Tradition (UK) Limited
- RP Martin
- King and Shaxson

11.1.3 Consultants / Advisers services

Treasury Consultancy Services

The Council appointed its previous advisers, Capita Asset Services (formerly known as Sector Treasury Services Limited) (17 Rochester Row, London SW1P 1QT, Tel: 0871 664 6800), for a further three years (extendable by two further years) from 1st January 2013. Under the contract they will provide the following services as per the contract schedule:

- Strategy meetings to review the Council's financial position having regard to its objectives, strategy, current financial circumstances, investment portfolio (externally managed inclusive), assets and liabilities.

- Regular updates on economic and political changes which may impact on and require modification to the Council's borrowing and investment strategies.

- Forecasts of interest rates and advice on the formulation of suitable borrowing and investment strategies utilising the strategic options available and appropriate to the Council's financial objectives.

- Forecasts of movements in PWLB and other borrowing rates which affect the timing of funding with fixed rate debt and advice on debt management/restructuring options.

- Advice on accounting and capital finance issues (e.g. SORP and Capital Finance Regulations), including balance sheet reviews.

- Advice on investment counterparty creditworthiness, including information from the UK's leading credit rating agencies or other analysts as appropriate. Weekly reports and updates to be provided (when necessary).

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- Provide template documents and advice on:
    - Annual Investment Strategy
    - Annual Review Report
    - Treasury Strategy & Quarterly Performance Reports
    - Policy Statements & Treasury Practices
    - Adoption of CIPFA Code of Treasury Management

- Provide training to treasury management staff and members.

- Benchmarking services.

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 from Capita Asset Services, the cost of which is included in the annual fee.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP 2

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TREASURY MANAGEMENT PRACTICES - SCHEDULES

TMP 12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

The Council is committed to the principle of openness and transparency in all of its functions, including the treasury management function.

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.

The Council will endeavour to meet any demand to inspect documents relevant to the delivery of the treasury management function, within the normal constraints of commercial confidentiality.

A sample of documents it may expect to make available is listed as follows:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Treasury Report
- Annual Statement of Accounts
- Annual budget
- Reports to Council and Cabinet
- Minutes from Council/Cabinet/committee meetings
- All documentation including advisory reports supporting decisions taken
- General ledger posting reports
- Prime vouchers supporting GL posting entries
- Interest rate notifications
- Final accounts working papers and schedules
- 3 year capital plan
- Minutes of Council / Cabinet / committee meetings
- Where appropriate, a 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