

Report of:	Meeting	Date	Item no.
Cllr Alan Vincent, Resources Portfolio Holder and Philippa Davies, Corporate Director of Resources	Cabinet	23 March 2016	7

<p>Treasury Management Policy Statement and Practices and Treasury Management and Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/17</p>
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1. Purpose of report

- 1.1 To set out the policies and objectives of the Council in respect of Treasury Management activities, to explain how the Council seeks to achieve the objectives and manage and control the activities, and to agree a strategy for 2016/17.

2. Outcomes

- 2.1 A Policy Statement, Statement of Treasury Management Practices, Treasury Management and Annual Investment Strategy and a Minimum Revenue Provision (MRP) Policy Statement.

3. Recommendation/s

- 3.1 To approve the Treasury Management Policy Statement 2016/17 and formally adopt clauses 4 to 7.
- 3.2 To approve the revised Treasury Management Practices 2016/17.
- 3.3 To agree the Treasury Management and Annual Investment Strategy 2016/17.
- 3.4 To approve the MRP Policy Statement 2016/17.

4. Background

- 4.1 The report has been prepared in accordance with the Revised CIPFA Code of Practice for Treasury Management 2011 with the 2009 version previously adopted by the Council on 22 April 2010.

5. Key issues and proposals

- 5.1** The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The 2016/17 Prudential Indicators were considered by Cabinet at their meeting on 17 February 2016, and approved at the Council meeting on 3 March 2016.
- 5.2** The key objective of the Prudential Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. In exceptional cases, its purpose may be to demonstrate that there is a danger of not ensuring this, so that the authority concerned can take remedial action.
- 5.3** In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management, the Council must approve a Policy Statement, Treasury Management Practices, a Treasury Management and Investment Strategy and a MRP Policy Statement setting out how the Council will seek to achieve its Treasury Management policies, together with details of how these activities are managed and controlled.
- 5.4** It is also a requirement of the Code of Practice that the full Council agrees the Treasury Management and Annual Investment Strategy and the MRP Policy Statement for the forthcoming financial year. The 2016/17 Strategy and MRP Policy Statement are attached at Appendix 3 and 4 respectively.

Financial and legal implications	
Finance	There are no direct financial implications arising from the adoption of the Treasury Management Policy Statement and Treasury Management Practices. The Prudential Code allows capital investment to proceed within prudent limits where the Council can fund it from its own resources and external revenue streams.
Legal	Compliance with the Codes of Practice and Local Government Act 2003.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

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List of background papers:		
name of document	date	where available for inspection

List of appendices

Appendix 1 - Treasury Management Policy Statement 2016/17

Appendix 2 - Treasury Management Practices 2016/17

Appendix 3 - Treasury Management and Annual Investment Strategy 2016/17

Appendix 4 – Minimum Revenue Provision Policy Statement 2016/17

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TREASURY MANAGEMENT POLICY STATEMENT 2016/17

Wyre Council defines its treasury management activities as follows: -

1. The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Clauses to be formally adopted

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

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

5. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
6. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director of Resources (Head of Finance wef 1/7/16), who will act in

accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

7. The Council nominates the Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**TREASURY MANAGEMENT
PRACTICES**

2016/17

TREASURY MANAGEMENT PRACTICES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

	Paragraph
TMP 1 Treasury risk management	1.1 - 1.8
TMP 2 Performance measurement	2.1 - 2.3
TMP 3 Decision-making and analysis	3.1
TMP 4 Approved instruments, methods and techniques	4.1 - 4.6
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	5.1 - 5.13
TMP 6 Reporting requirements and management information arrangements	6.1 - 6.9
TMP 7 Budgeting, accounting and audit arrangements	7.1 - 7.4
TMP 8 Cash and cash flow management	8.1 - 8.6
TMP 9 Money laundering	9.1 - 9.6
TMP 10 Training and qualifications	10.1 - 10.7
TMP 11 Use of external service providers	11.1 - 11.2
TMP 12 Corporate governance	12.1

TMP1 TREASURY RISK MANAGEMENT

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below.

1.1 Credit and Counterparty Risk Management

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

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques. 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

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:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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: -

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange 1 year
 - Red 6 months
 - Green 100 days
 - No colour Not to be used
1. A weekly colour coded Credit Listing is provided by email from our Treasury Management Consultants and this is supplemented with emails regarding all changes in credit ratings as and when they occur. These documents are saved within the Cashflow folder.
 2. These documents will be reviewed by treasury management staff in line with the policy on criteria for selection of counterparties for use by the responsible officer making investments on a daily basis.
 3. Ratings will not be the sole determinant of the quality of an institution. In addition to the credit ratings the assessment will also take account of information that reflects the opinion of the markets. Other information sources will include: -
 - The financial press
 - Share price
 - Information pertaining to the banking sector
 - Sole reliance will not be placed on the use of this external source. The Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.
 4. Maximum maturity periods and amounts to be placed in different types of institutions are as follows:-

	<u>Colour (and long term rating where applicable)</u>	<u>Money Limit</u>	<u>Time Limit</u>
Banks and Building Societies	purple	£6m	2yr
Banks - part nationalised	blue	£6m	1 yr
Banks and Building Societies	orange	£6m	1 yr
Banks and Building Societies	red	£6m	6 mths
Banks and Building Societies	green	£6m	100 days

	<u>Colour (and long term rating where applicable)</u>	<u>Money Limit</u>	<u>Time Limit</u>
Limit 3 category – Council’s banker	blue	£6m	1 yr
Local authorities	yellow	£6m	5yrs
Money market funds	AAA	£6m	liquid

5. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
 - Maximum amount to be placed with any one institution - £6m
 - Group limits where a number of institutions are under one ownership – maximum of £6m
 - Country limits – excluding UK institutions, a minimum sovereign rating of AA- from Fitch (or equivalent) is required.
6. Investments will not be made with counterparties that do not have a credit rating in their own right, except for Local Authorities. As part of our Treasury Management Consultants credit methodology UK Local Authorities are assigned a colour band ‘yellow’ (5years) .

1.2 Liquidity Risk Management

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

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

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

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

1.2.2. Details of:

a) Standby facilities

Each day any surplus funds are transferred to an Investment Account or call account which is available from the Council’s main bank (Natwest).

The balance on this account is instantly accessible if the group bank account becomes overdrawn.

b) Bank overdraft arrangements

The Council has reviewed the cost effectiveness of operating an agreed overdraft and has decided not to have such an arrangement in place. If the group bank account does become overdrawn there will be a charge of 4% over base rate.

c) Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £13.743m.

d) Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest Rate Risk Management

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

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

1.3.1. Details of approved interest rate exposure limits

The Treasury Indicators for 2016/17 include a figure of £24 million for External Debt – Authorised Limit.

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

The Treasury Indicators for 2016/17 include a figure of £13.743 million for External Debt – Operational Boundary.

1.3.3 Upper limit for fixed interest rate exposure

The Prudential Indicators for 2016/17 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at fixed interest rates, and 25% in respect of investments that are fixed rate investments.

1.3.4. Upper limit for variable interest rate exposure

The Prudential Indicators for 2016/17 include an estimated exposure of 25% of principal sums outstanding in respect of borrowing at variable interest rates, and 100% in respect of investments that are variable rate investments.

1.3.5 Policies concerning the use of instruments for interest rate management

a) Forward dealing

Consideration will be given to dealing from forward periods dependent upon market conditions. Forward dealing requires the approval of the Corporate Director of Resources (Head of Finance wef 1/7/16).

b) Callable deposits

The Council will not use callable deposits as part of its Annual Investment Strategy.

c) LOBO's (borrowing under lender's option/borrowers option)

Use of LOBO's are not considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days requires the approval of the Corporate Director of Resources (Head of Finance wef 1/7/16).

1.4 Exchange Rate Risk Management

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

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

1.4.1 Approved criteria for managing changes in exchange rate levels

a) As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will eliminate all foreign exchange exposures as soon as they are identified.

b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered after taking professional advice. Unexpected receipt of foreign currency income will be converted to sterling at the day's rate on which the currency was received. Where the Council has a contractual obligation to make a payment in the same currency at a date in the future, then the currency may be held on deposit to meet this expenditure commitment.

1.5 Refinancing Risk Management

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

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

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

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

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

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

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

All rescheduling will be reported to Cabinet as soon as possible after the debt rescheduling exercise.

1.5.2. Projected Capital Investment Requirements

The responsible officer will prepare a four year plan for capital expenditure for the Council. The capital plan will be used to prepare a four 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, the Council will consider all the resources currently available/estimated for the future together with the

totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this four year period. (Paragraph 31 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

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

1.5.4 Set Aside Capital Receipts

As the final mortgage was redeemed during 2013/14, the Council no longer has any requirement to set aside a proportion of its receipts. All of the authority's capital receipts may now be used for either the redemption of debt or financing new capital expenditure as an alternative to new borrowing.

1.6 Legal and Regulatory Risk Management

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

The 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] Treasury Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The 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 organisation.

1.6.1 References to Relevant Statutes and Regulations

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

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 f(Capital Finance and Accounting) (Amendment) (England) Regulations 2008
S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
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 Financial Regulations and Financial Procedure Rules

The Council's Scheme of Delegation

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

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

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

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

- i. the responsibilities and dealing arrangements in relation to treasury management activities which are contained in TMP5
- ii. the document that states which officers are the authorised signatories.

Required Information on Counterparties

Lending shall only be made to counterparties that comply with the Council's Credit Worthiness Policy that is based upon the Capita colour coded creditworthiness list.

In addition, the Council will also look at other market information in order to establish a full investment strategy.

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

The Corporate Director of Resources (Head of finance wef 1/7/16) shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage 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 Head of Business Support; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Corporate Director of Resources (Head of Finance wef 1/7/16); the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if she has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

There is a risk that an organisation could fail 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 fail to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This is commonly referred to as operational risk.

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

The Council will therefore:-

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

1.7.1. Details of Systems and Procedures to be followed, including Internet Services

Authority

- Loan and Investment procedures are defined in the Council's Financial Regulations and Financial Procedure Rules.
- The Scheme of Delegation to Officers sets out the authority given to the Corporate Director of Resources (Head of Finance wef 1/7/16) in relation to arranging the borrowing and investments of the authority. All loans and investments are negotiated by the Corporate Director of Resources (Head of Finance wef 1/7/16) or nominated Officers.

Procedures

- A password and PIN number is required to access the Bankline system, which is used to make electronic payments.
- A username and password is required to access the SunGard Money Market Portal.
- Payments can only be authorised by agreed officers having previously been notified to the current provider of our banking services and Money Market Portal.

Investment and borrowing transactions

- A detailed spreadsheet of loans and investments is maintained within the Financial Services team. This is regularly checked to the ledger.
- The loans spreadsheet is updated to record all lending and borrowing. This includes the date of the transaction, brokerage fees etc.
- Adequate and effective cash flow forecasting records are maintained on spreadsheets to support the decision to lend or borrow.
- Money borrowed or lent that is due to be repaid is recorded in the cashflow forecast.
- Written confirmation of deals is faxed/emailed promptly by the lending or borrowing institution.
- A broker note showing details of the loan arranged confirms all transactions placed through the brokers.
- The SunGard Portal, with emailed acknowledgements, confirms all money market transactions.
- Email acknowledgements confirm all fixed term deposits with banking institutions.

Regularity and security

- All lending is only made to institutions on the Approved List.
- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution.
- Brokers have a list of named officials authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loan management and accounting.
- The control totals for borrowing and lending are regularly reconciled with the ledger balance sheet codes by the Financial Services team.
- There is a separation of duties in the Section between the recall of MMF's and its checking and authorisation.
- The Council's bank holds a list of Council officials who are authorised signatories.
- No member of the Treasury Management team, responsible for borrowing and lending, is an authorised signatory.

Checks

- The bank reconciliation is carried out regularly from the bank statement to the financial ledger.
- Balance Sheet ledger codes are reconciled monthly. Working papers are retained for audit inspection.
- A debt charge/investment income listing is produced every time the debt charge/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year-end and this document is retained for audit inspection.
- The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with Accounting Codes of Practice

by reflecting the market value of the fund in the balance sheet. This will be agreed with Council's external auditors.

- We have complied with the requirements of the Code of Practice on Local Authority Accounting and will account for the funds at Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

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 Financial Services team.

1.7.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

Treasury Management related files (word and excel) are stored on the Council's 'J' Drive with arrangements for contingency/back-up. Back up facilities can be accessed off site.

In the event of a 'Bankline System' failure, manual procedures would be followed with information being provided from the Council's Bankers by telephone.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

1.7.3 Insurance Cover Details

The Council has 'Fidelity' insurance cover with Zurich Municipal (ZM). This covers the loss of cash by fraud or dishonesty of employees. This cover is limited per transaction as follows up until 30 June 2016:

- 13 designated officers (Corporate Director of Resources, Head of Finance, Head of Contact Centre, Head of Governance, Financial Services Manager (systems), Financial Services Manager (non-systems), Senior Accountant, Senior Account Manager x 3, Control/Customer Focus Officer and Account Manager x 2) are indemnified for £3m.
- All other employees are indemnified for £250,000.

And from the 1 July 2016:

- 14 designated officers (Head of Finance, Head of Contact Centre, Head of Governance, Head of Business Support, Senior Solicitor, Deputy Head of Finance, 2 x Senior Accountant (systems x 1, non-systems x 1), Senior Account Manager x 3, Systems Administrator/Customer Focus Officer and Account Manager x 2) are indemnified for £3m.
- All other employees are indemnified for £250,000

Officials Indemnity Insurance

The Council also has an 'Officials Indemnity' insurance policy with ZM which covers the loss to the Council from any actions and advice of its officers, excluding professional services provided under a written contract or

agreement, that are negligent and without due care. This cover is currently limited to £1m for any one event with nil excess.

Public Liability Insurance

The Council also has 'Public Liability cover with ZM which covers the loss to the Council from any actions or omissions which could give rise to a claim of negligence as a result of third party financial loss. This cover is currently limited to £10m for any one event with a £10,000 excess.

1.8 Market Risk Management

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

The 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.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

The Guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

- **Specified Investments:** All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria (organisations included with the following colour codings on Capita's weekly Credit List) where applicable.
- **Non-Specified Investments:** These are investments which do not meet the Specified Investment criteria

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Organisation	Minimum credit criteria / colour band	Specified or Non-Specified Investment	Max Amount per institution	Max. maturity Period
Term deposits with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	Non-Spec Specified Specified Specified Specified	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
CD's with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	Non-Spec Specified Specified Specified Specified	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
UK Local Authorities	yellow	Non-Spec Specified	£6m £6m	Up to 5 years Up to 1 year
Money Market Funds	AAA	Specified	£6m	liquid

* Part Nationalised banks (Per 1.1.1)

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

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

- a) reviews with our treasury management consultants
- b) annual review after the end of the year as reported to Council
- c) half yearly monitoring reports to Council

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with the Treasury Management consultants every 12 months to review the performance of the investment and debt portfolios.

2.1.2 Annual Review after the end of the financial year

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

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

2.1.3 Half Yearly Monitoring Reports

A half yearly Report on Treasury Management is submitted to Council in December which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for the first 6 months of the year.

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.

2.2.2 Investment

The performance of in house investment earnings will be measured against the 7 day LIBID rate (London Interbank Bid Rate).

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

2.3.1 Frequency and processes for tendering

Following the loss of the Council's debt free status during 2007/08, Sector Treasury Services (now Capita Asset Services) were engaged as the Council's treasury advisor. The initial appointment was for one year and was considered to be value for money having sought other quotations. The service has recently been benchmarked and further benchmarking exercises will be conducted every three years to ensure value for money is maintained.

2.3.2 Banking services

Whilst the Council has been with NatWest for over 25 years, banking services have traditionally been re-tendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing.

The banking service contract was renegotiated with NatWest for a 1 year period commencing 1 January 2015 and a procurement exercise is currently underway.

2.3.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both price and quality of service.

2.3.4 Consultants'/advisers' services

The Council's current policy is to appoint professional treasury management consultants (Capita). Separate leasing advisory consultants will be appointed where necessary.

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

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

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, And New Instruments And Techniques:

3.1.1 Records to be kept

All loan transactions are recorded on a spreadsheet within the Cashflow folder on the J drive.

The following records will be used as relative to each loan or investment:

- Daily cash projections
- Money market rates obtained by telephones from brokers
- Sunguard emails detailing each net trade and authorisation
- Copies of Natwest Chaps payment transactions
- Dealing slips for all money market transactions

- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing/lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules

3.1.2 Processes to be pursued

Cash flow analysis.

Ledger reconciliations.

Review of long-term borrowing requirement as applicable.

Debt and investment maturity analysis.

Monitoring of projected loan charges interest and expenses costs.

Review of opportunities for debt rescheduling, as applicable.

Collation of a monthly borrowing and lending return.

3.1.3 Issues to be addressed

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

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

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

- a) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) Evaluate the economic and market factors that might influence the manner and timing of any decision to finance capital schemes
- c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and external grant providers
- d) Consider the 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 which may expose the organisation to changes in the value of its capital.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

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

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy.

4.3 Approved Techniques

Forward dealing up to 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, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Market (long-term) (Not currently)	●	●
Market (temporary)	●	●
Internal (capital receipts & revenue balances)	●	●
Leasing (finance leases) (Not currently)	●	●
Other Methods of Financing		
Government and EU Capital Grants		
Lottery monies		
Operating leases (Not currently)		

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Corporate Director of Resources (Head of Finance wef 1/7/16) has delegated powers in accordance with Financial Regulations and Financial Procedure Rules, the Scheme of Delegation to Officers and the

Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management and Annual Investment Strategy and Prudential and Treasury Indicators.

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

5.1 Allocation of responsibilities

(i) Full Council

- approval of annual strategy
- approval of MRP Policy Statement
- budget consideration and approval
- receive and review the mid year and annual monitoring reports

(ii) Cabinet

- receiving and reviewing reports on treasury management policies, practices and activities
- budget consideration and approval
- approval of the division of responsibilities as reflected in TMP5
- approving the selection of external service providers and agreeing terms of appointment

(iii) Overview and Scrutiny

- effective scrutiny of the treasury management strategy and policies

5.2 Principles and Practices Concerning Segregation Of Duties

The Corporate Director of Resources (Head of Finance wef 1/7/16) authorises all new long-term borrowing.

Transactions relating to pre-existing agreements are delegated to nominated officers within the Finance team.

Short-term borrowing and investment is authorised by the Corporate Director of Resources (Head of Finance wef 1/7/16), Head of Finance, the Financial Services Manager (non-systems), Deputy Head of Finance wef 1/7/16, Senior Accountant (non-systems), Head of Business Support, Senior Solicitor, Head of Contact Centre and Head of Governance.

The following duties are undertaken by separate officers:

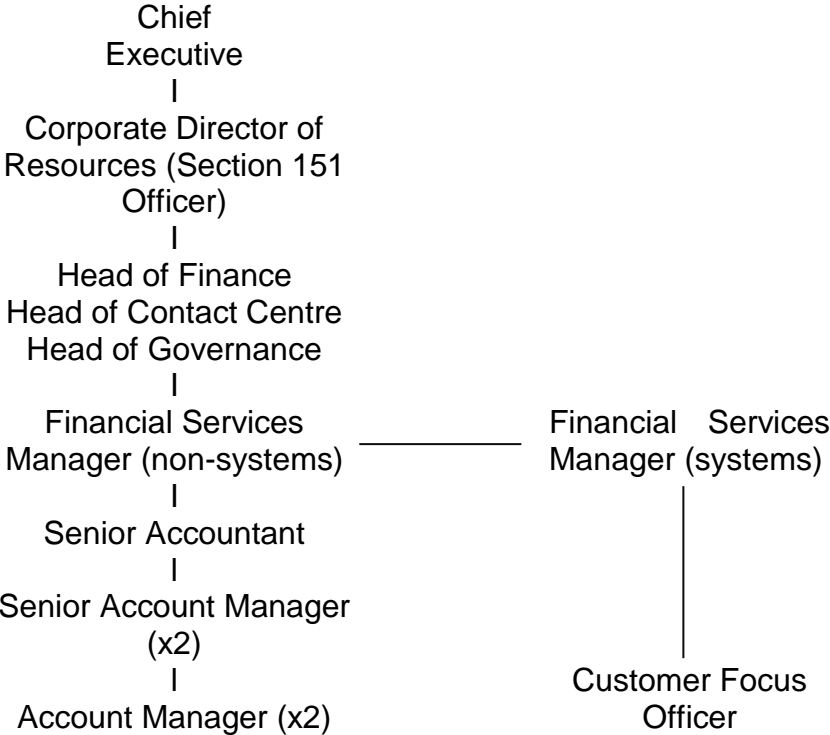
Dealing - negotiating deals

- receipt and checking of brokers confirmation against loans spreadsheet
 - reconciliation of control accounts
 - bank reconciliation
- Accounting Entry - processing the expenditure or income i.e., posting the entries into the accounting system
- Authorising - approval and payment
- approval of deals

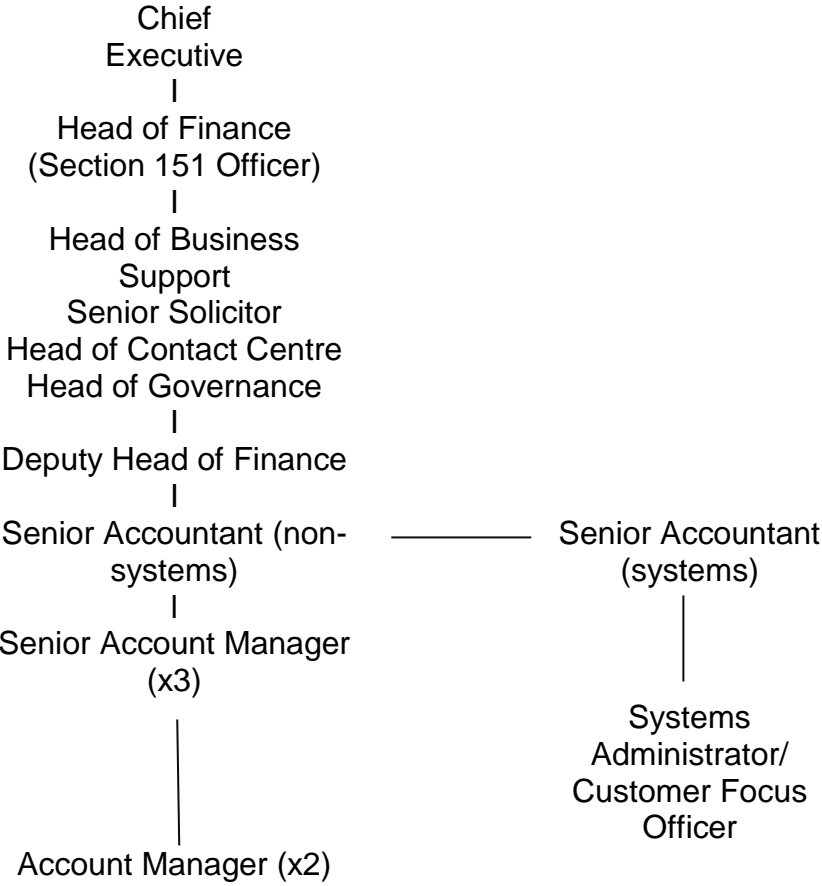
The table overleaf identifies who performs particular roles within the team.

Function	Chief Executive	Section 151 Officer (Corporate Director of Resources) Until 30/6/16)	Head Of Finance	Deputy Head of Finance wef 1/7/16	Financial Services Manager (Non-Systems) Until 30/6/16)/Senior Accountant (non-systems) from 1/7/16	Head of Contact Centre/ Head of Governance/ Head of Business Support wef 1/4/16/ Senior Solicitor wef 1/4/16	Financial Services Manager (Systems) until 30/6/16/ Systems Administrator/ Customer Focus Officer/ Senior Accountant wef 1/4/16	Senior Accountant (non-systems)until 30/6/16 /Senior Acc Manager	Account Manager
Adherence to TM Practices, Policies and Strategies	•	•	•	•					
Ensure regular reports submitted to Cabinet on Treasury Policy, activity and performance	•	•	•	•					
Revisions of treasury management policy statement, policies & practices		•	•	•					
Approval of external service providers and agreeing terms of appointment		•	•	•					
Establishing new banking facilities (e.g. Base Tracker Accounts)		•	•	•					
Authorisation of Long term borrowing and investing		•	•	•					
Amending bank mandate		•	•	•					
Authorisation of short term borrowing and investing		•	•	•	•	•			
Bankline - Authorising payments		•	•	•	•	•			
Bankline - Creating payments								•	•
SunGard – Authorising transfers		•	•	•	•	•			
SunGard – Creating transfers								•	•
Day to day dealing								•	•
Cashflow projections								•	•
Maintenance of loans and investment spreadsheets								•	•
System Administrator (e.g. setting limits, new users)							•		
Responsibility for ensuring Bank Reconciliation performed							•		

5.3 Treasury Management Organisation Chart (until 30 June 2016)



Treasury Management Organisation Chart (from 1 July 2016)



5.4 Statement of Treasury Management Duties/Responsibilities of Each Treasury Post

5.4.1 The responsible officer is the person charged with professional responsibilities for the Treasury Management function and in this Council this is the Corporate Director of Resources/S151 Officer (Head of Finance wef 1/7/16) or the Head of Finance (Deputy Head of Finance wef 1/7/16) in their absence who will carry out the following duties:

- a) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- b) Submit treasury management policy reports as required.
- c) Submit budgets and budget variations in accordance with the Financial Regulations and Financial Procedure rules.
- d) Receive and review management information reports.
- e) Review the performance of the treasury management function and promote efficiency reviews.
- f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- g) Ensure the adequacy of internal audit, and liaise with external audit.
- h) Recommend the appointment of external service providers, where applicable, in accordance with the Council's Financial Regulations and Financial Procedure Rules.
- i) The Corporate Director of Resources (Head of Finance wef 1/7/16) has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The Corporate Director of Resources (Head of Finance wef 1/7/16) may delegate this power to borrow and invest to certain members of staff as indicated in TMP 5.3 above. All transactions must be authorised by one of the named officers below:
 - Corporate Director of Resources (Section 151 Officer) until 30/6/16
 - Head of Finance (Section 151 Officer) from 1/7/16
 - Deputy Head of Finance (wef 1/7/16)
 - Financial Services Manager (non-systems) until 30/6/16
 - Head of Business Support
 - Senior Solicitor
 - Head of Contact Centre
 - Head of Governance
- k) The Corporate Director of Resources (Head of Finance wef 1/7/16) 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.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Corporate Director of Resources (Head of Finance wef 1/7/16) 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 and Financial Procedure Rules.

- m) It is also the responsibility of the Corporate Director of Resources (Head of Finance wef 1/7/16) to ensure that the Council complies with the requirements of The Non Investment Products Code for principals and broking firms in the wholesale markets.

5.4.2 Head of Finance (Deputy Head of Finance wef 1/7/16) (or delegated officer)

The responsibilities of this post will be: -

- a) Execution of transactions.
- b) Adherence to agreed policies and practices on a day-to-day basis.
- c) Maintaining relationships with third parties and external service providers.
- d) Supervising treasury management staff.
- e) Monitoring performance on a day-to-day basis.
- f) Submitting management information reports to the responsible officer.
- g) Identifying and recommending opportunities for improved practices.

5.4.3 Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the Corporate Director of Resources (Head of Finance wef 1/7/16) reports regularly to the Cabinet on treasury policy, activity and performance.

5.4.4 The Monitoring Officer (Head of Business Support) or Deputy Monitoring Officer (Senior Solicitor)

The responsibilities of this post will be: -

- a) Ensuring compliance by the Corporate Director of Resources (Head of Finance wef 1/7/16) with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Corporate Director of Resources (Head of Finance wef 1/7/16) when advice is sought.

5.4.5 Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures.
- b) Reviewing division of duties and operational practice.
- c) Undertaking probity audit of the treasury function (sampling transactions)

5.5 Absence Cover Arrangements

Refer to the organisation chart at TMP 5.3 above and role responsibilities at TMP 5.4 above.

5.6 Dealing Limits

Persons authorised to deal are identified at TMP 5.3 above and dealing limits are set out in TMP 1.1.1.

5.7 List Of Approved Brokers

A list of approved brokers is maintained within the Financial Services team (see TMP 11.1.2) and a record of all transactions recorded against them.

5.8 Policy On Brokers' Services

It is the Council's policy to rotate business between brokers in accordance with best practice.

5.9 Policy On Taping Of Conversations

It is not Council Policy to tape broker's conversations.

5.10 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. There are certain types of accounts and facilities where direct dealing is required as follows:-

National Westminster Call Account and 95 day Notice Account
Santander Call Account and Fixed Term Deposit
Handelsbanken 10 and 35 day Notice Account
Goldman Sachs International Bank via Capita to access Tranche rates
Bank of Scotland 32 day Notice Account and Overnight Account
Goldman Sachs International Bank via Capita Asset Services
SunGard Money Market Portal – currently authorised to deal with: -

- Deutsche Managed Sterling Fund
- Prime Rate Sterling Liquidity Fund
- IGNIS Liquidity Fund
- Blackrock Liquidity Fund
- Goldman Sachs Sterling Reserves Fund
- LGIM Sterling Liquidity Fund
- Insight Sterling Liquidity Fund

5.11 Settlement Transmission Procedures

Instructions are given by email with payments being transferred by 3.30pm on the same day. In the case of SunGard Money market transactions, instructions are given via the internet and payments are made by 12.30pm for the Deutsche Managed Sterling Fund, 1.30pm for the Prime Rate Sterling Liquid Fund and 1.00pm for all other funds.

5.12 Documentation Requirements

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

5.13 Arrangements Concerning the Management of Third-Party Funds

The Authority administers a number of trust funds totaling £53,476 at 31 March 2015. The two largest being Kenyon Park bequest with a balance held

of £10,070 and the Fielden Trust with a balance held of £7,620 at 31 March 2015.

The Fielden Trust balance is invested as part of the Council's surplus funds. Interest is paid monthly but calculated using the PWLB one year maturity rate as notified by Capita on a daily basis.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Programme of Reporting

- a) Annual reporting requirements before the start of the year:-
 - (i) review of the organisation's approved clauses, treasury management policy statement and practices;
 - (ii) strategy report on proposed treasury management activities for the year comprising of the Treasury Management and Annual Investment Strategy and MRP Policy Statement.
- b) Mid-year review.
- c) Annual review report after the end of the year.

6.2 Annual Treasury Management Strategy

6.2.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then full Council for approval before the commencement of each financial year.

6.2.2 The formulation of the annual Treasury Management Strategy 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, the 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.

6.2.3 The Treasury Management Strategy is concerned with the following elements:

- Prudential and Treasury Indicators
- current Treasury portfolio position
- borrowing requirement
- 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 issue (as necessary)
- the MRP policy statement

6.2.4 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as

published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

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

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

6.4 The Annual Minimum Revenue Provision Statement

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

6.5 Policy On Prudential and Treasury Indicators

6.5.1 The Council approves before the beginning of each financial year a number of treasury limits referred to as the Prudential and Treasury Indicators.

6.5.2 The Corporate Director of Resources (Head of Finance wef 1/7/16) is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Corporate Director of Resources (Head of Finance wef 1/7/16) shall submit the changes for approval to Cabinet and then full Council.

6.6 Mid Year Review

The Council will review its treasury management activities on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices

- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

6.7 Annual Report on Treasury Management Activity

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

- a) Transactions executed and their revenue effects;
- b) Report on risk implications of decisions taken and transactions executed;
- c) Compliance report on agreed policies and practices and all statutory/regulatory requirements;
- d) Performance Report;
- e) Report on compliance with CIPFA Treasury Management Code; and
- f) Monitoring of treasury management indicators.

6.8 Management Information Reports

Management information reports are prepared monthly and contain the following information:-

- a) A summary of transactions executed, brokers used and fees paid and their revenue effect; and
- b) Measurements of performance such as loan charges/investment income.

6.9 Publication of Treasury Management Reports

Reports presented to Council and Cabinet are available to view on the Council's website www.wyre.gov.uk.

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 which is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Sample Budgets / Accounts/ Prudential and Treasury Indicators

The Corporate Director of Resources (Head of Finance wef 1/7/16) will prepare a four year medium term financial plan with Prudential and Treasury Management Indicators reflecting the overall budget for the forthcoming year and provisional estimates for the following three years. This will include the costs involved in running the function and any associated income. The Head of Finance (Deputy Head of Finance wef 1/7/16) will exercise effective controls over this budget and monitor performance against Prudential and Treasury

Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances where applicable
- Interest accrual calculation
- Principal and interest charges reports from Civica
- Analysis of any deferred charges where applicable
- Annual Treasury Report
- Treasury Management and Annual Investment Strategy and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the MRP

7.4 Budget Monitoring Report

Year to date and forecast outturn against budget, with variances, are examined in terms of interest and treasury management expenses as part of the Council's monthly budget monitoring.

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually and daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payment and receipt dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statement Procedures

The Council downloads data daily from its bank. All amounts on the downloads are checked to source data from payroll, creditor etc. A formal bank reconciliation is undertaken on a monthly basis.

8.3 Payment Scheduling and Agreed Terms of Trade with Creditors

In the present economic climate and in line with a request from the Government, we have committed to paying 80% of invoices within 10 days (local performance indicator RES23). In the 2014/15 financial year 74.09% of invoices were paid within 10 days. Payments to individuals, in relation to refunds, however, are immediate.

8.4 Arrangements for Monitoring Debtors/Creditors levels

Details are passed to the treasury team on a regular basis to assist in updating the cash flow model.

8.5 Procedures for Banking of Funds

All money received by an Officer on behalf of the Council will without unreasonable delay be paid into the Council's bank accounts via the Financial Services team. The cashier will notify the Account Manager each day of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangements in place. Where such opportunities arise (for example whereby a payment in advance would secure a further discount) the prepayment would be authorised by the responsible officer.

TMP 9 MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the

subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local Authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council comply and have an Anti Money Laundering Policy & Procedure which is reviewed annually by Audit Committee and most recently 10 November 2015.

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 Financial Conduct Authority website on www.fca.org.uk.

9.6 Methodologies for Identifying Sources of Deposits

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

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

TMP 10 TRAINING AND QUALIFICATIONS

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

- a) Treasury management staff employed by the Council.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Performance Appraisal Scheme which identifies the training requirements of individual members of staff engaged on treasury related

activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Head of Finance (Deputy Head of Finance wef 1/7/16) 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.

- b) Members charged with governance of the treasury management function. All elected members were invited to attend a Treasury Management training session delivered by our treasury management consultant prior to the Council meeting 3 December 2015 and further training will be arranged as required.

10.2 Details of Approved Training Courses

Treasury management staff will attend courses provided by our treasury management consultants, CIPFA, etc.

10.3 Records of Training Received by Treasury Staff

Records are maintained within the HR21 system and on individual officers Personal Development Plans.

10.4 Approved Qualifications for Treasury Staff

Staff involved with the day to day treasury management function, have the following incorporated within their job description:

- To manage the Council's day to day investment and borrowing requirements in accordance with the Treasury Management Strategy.
- To assist with the drafting of the Treasury Management Strategy and associated Member reports.

10.5 Statement of Professional Practice (SOPP)

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

10.6 Member training records

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

10.7 Members charged with governance

The Overview and Scrutiny Committee has been nominated as the responsible body for ensuring scrutiny of the treasury management strategy and policies. Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

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

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

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

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

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

11.1.1 Banking services

- a) Name of supplier of service: National Westminster Bank.
The branch address is:
Church Street,
Fleetwood
FY7 6JS
Tel: - 0845 6012288
- b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
- c) 12 month contract commencing 1/1/15 (A procurement exercise is currently underway).
- d) Cost of service is variable depending on schedule of tariffs and volumes.
- e) Payments due quarterly.

11.1.2 Money-broking services

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

Name of supplier of service:

- a) RP Martin Brokers (UK) plc
Cannon Bridge House
25 Dowgate Hill
London

EC4R 2BB
Tel: 0207 469 9000
Regulatory Status: FCA registered counterparty 187916

- b) Tullett Prebon Europe Ltd
Tullett Prebon Group Ltd
155 Bishopsgate,
London,
EC2M 3TQ
Tel: 020 7200 7000
Regulatory Status: FCA Authorised 146880
- c) Tradition UK Ltd
Beaufort House
15 St. Botolph Street
London
EC3A 7QX
Tel: 0207 377 0050
Regulatory Status: FCA Authorised 139200

When undertaking temporary borrowing, the brokers currently charge commission at 1% of interest due. There is no commission charge for undertaking investment transactions.

11.1.3 Consultants'/advisers' services

Treasury Consultancy Services

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

- a) Name of supplier of service is: Capita Asset Services Limited.
Their address is:
40 Dukes Place
London
EC3A 7NH
Tel: 0871 664 6800
- b) Regulatory Status: Investment Advisor authorised by the FCA
- c) Contract commenced 01.04.07 and was renewed for a 3yr period commencing 1/4/14.
- d) Cost of the service is £7,750 per year.
- e) Payments due in two instalments in September and March

11.1.4 Leasing Consultancy Services

The council currently have no requirement for leasing consultancy but previously used Chrystal Consulting.
Other Consultancy services may be employed on short-term contracts as and when required

11.1.5 Custodian Facility

The council will use a Custodian Facility as required when it invests in Certificates of Deposit (CD's).

11.1.6 Credit Rating Agency

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

11.2 Procedures and Frequency for Tendering Services

The banking contract was recently reviewed for 12 months commencing 1/1/15 and a procurement exercise is currently underway. The treasury consultancy service was renewed for a 3yr period commencing 1/4/14. The process for advertising and awarding contracts will be in line with the Council's Financial Regulations and Financial Procedure Rules.

TMP 12 CORPORATE GOVERNANCE

12.1 List of Documents to be Made Available for Public Inspection

- a) The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b) It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c) The following documents are available for public inspection: -
 - Statement of Accounts
 - Revenue Estimates and Capital Programme
 - Medium Term Financial Plan
 - Treasury Management Policy Statement and Practices
 - Treasury Management and Annual Investment Strategy
 - MRP Policy Statement
 - Annual Treasury Management Report
 - Half Yearly Treasury Management Report
 - Minutes of Council/Cabinet/Overview and Scrutiny Committee Meetings

TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council receives and approves, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy (this report) -

The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

An Annual Treasury Report – This provides details of compliance with prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A Mid Year Treasury Management Report – This will provide members with the activities undertaken, any variation from agreed policies, amending prudential indicators as necessary, and whether any policies require revision.

Scrutiny

The Overview and Scrutiny Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies and their annual work programme reflects this requirement.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. All elected members were invited to attend a Treasury Management training session delivered by our treasury management consultant prior to the Council meeting 3 December 2015 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management Consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. The Capital Prudential Indicators 2016/17 to 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Cabinet at its meeting on 17 February 2016 approved the list of Prudential indicators which is set out at Annex 1.

Capital Expenditure

Capital expenditure plans and how these plans are being financed by capital or revenues resources were approved by Cabinet on 17 February 2016. Prudential indicator number 1 summarises the Councils capital expenditure plans. The table below illustrates how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow.

	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital expenditure	19.117	26.843	18.709	1.082	1.236
Financed by:					
Capital receipts	0.447	0.459	0	0	0
Capital grants and Contributions	17.412	25.799	18.463	0.892	0.892
Revenue/Reserves	1.258	0.585	0.246	0.190	0.344
Net financing need for the year	0	0	0	0	0

The Council's Borrowing Need (the Capital Financing Requirement)

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital sources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI Schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the

Council is not required to separately borrow for these schemes. The Council does not currently have any such schemes within the CFR. Prudential indicator number 3 at Annex 1 summarises the Councils Capital Financing Requirement. This is shown gross of Adjustment A (the unreconciled difference between the previous credit ceiling and the new CFR per the Prudential Code). In essence, Adjustment A provides a debt liability of £9.5m which the Council is not required to repay through MRP.

Minimum Revenue Provision (MRP) Policy Statement

The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP). CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The Cabinet is recommended to approve the MRP Policy Statement at Appendix 4.

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. The indicators at Annex 1, provide an indication of the impact of the capital investment plans on the Councils overall finances.

Prudential indicator number 2 identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream. Prudential indicator number 4 identifies the revenue cost associated with proposed changes to the capital programme approved by Cabinet on 17 February 2016 compared to previous approved commitments and current plans. As there is no new borrowing planned for 2016/17 or beyond, the increased costs reflect income foregone by using reserves and balances to finance the capital programme. The assumptions are based on the budget and therefore include some estimates.

3. Borrowing

The capital expenditure plans set out in Prudential indicator number 1 provide details of the service activity of the Council. The treasury management function ensures that the Councils cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1. Current portfolio position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised on the following table. The table shows the actual external debt (the treasury management operations), against the underlying

capital borrowing need (the Capital Financing Requirement - CFR) highlighting any over or under borrowing.

£000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt						
Debt at 1 April	1,552	1,552	1,552	1,552	1,552	1,552
Expected change in Debt	0	0	0	0	0	0
Other Long Term Liabilities (OLTL)	4	4	4	4	4	4
Expected change in OLTL	0	0	0	0	0	0
Actual Gross Debt at 31 March	1,556	1,556	1,556	1,556	1,556	1,556
Capital Financing Requirement	11,739	11,643	11,547	11,451	11,355	11,259
Under/(over) borrowing	10,183	10,087	9,991	9,895	9,799	9,703

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited, early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Treasury Management indicators at Annex 2 were approved by the Cabinet at its meeting on 17 February 2016.

The Authorised Limit (Treasury management indicator number 1) represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Operational Boundary (Treasury management indicator number 2) is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.3. Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates and provide an economic commentary:-

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2016	0.50	1.70	3.20	3.00
June 2016	0.50	1.90	3.20	3.00
Sept 2016	0.50	2.00	3.30	3.10
Dec 2016	0.50	2.10	3.30	3.10
March 2017	0.75	2.20	3.50	3.30
June 2017	0.75	2.30	3.50	3.30
Sept 2017	1.00	2.40	3.60	3.40
Dec 2017	1.00	2.60	3.60	3.40
March 2018	1.25	2.70	3.70	3.50
June 2018	1.25	2.80	3.70	3.60
Sept 2018	1.50	2.90	3.70	3.60
Dec 2018	1.50	3.00	3.80	3.70
March 2019	1.75	3.10	3.80	3.70

UK GDP growth rates in 2013 of 2.2% and 2.9% were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant pick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would

occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

3.4. Borrowing Strategy

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 with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

The Corporate Director of Resources (Head of Finance wef 1/7/16) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- **if it were felt 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.
 - **if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast**, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an 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 are still lower than they will be in the next few years.
- Any decisions will be reported to Cabinet at the next available opportunity.

Treasury Management limits on activity

There are three debt related treasury activity limits, the purpose of which are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movements in interest rates. These can be found at Annex 2 Treasury Indicators numbers 4 to 6 which were approved by Cabinet on 17 February 2016.

3.5 Policy in Borrowing in Advance of Need

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. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

As short term borrowing rates will be considerably 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 cost of debt repayment (premiums incurred).

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) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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 investment are likely to be lower than rates paid on current debts.

All rescheduling will be reported as soon as possible after completion of the exercise to Cabinet.

4. Annual Investment Strategy

Background: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency. In keeping with the agencies' new methodologies, the rating element of Capita's credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, Capita's clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA- from Fitch or equivalent. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.1 Investment policy

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"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; 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 opinions 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.

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.

Investment instruments identified for use in the financial year are listed in TMP 1 Schedule 1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness Policy

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:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

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

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

Organisation	Minimum credit criteria / colour band	Max Amount per institution	Max. maturity Period
Term deposits with UK Clearing Banks and UK Building Societies	Purple Orange Blue Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year Up to 1 year* Up to 6 months Up to 100 days
Certificates of Deposit with UK Clearing Banks and UK Building Societies	Purple Orange Blue Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year Up to 1 year* Up to 6 months Up to 100 days
UK Local Authorities	yellow	£6m £6m	Up to 5 years Up to 1 year
Money Market Funds	AAA	£6m	liquid

* Part nationalised banks

Capita Asset Services 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 once agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly but the Council is alerted to changes to ratings of all three agencies through the use of Capita Asset Services creditworthiness service.

- 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.
- 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 daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country Limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries, other than the UK, with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-House Funds

Investments will be made with reference to the level of earmarked reserves and balances and the outlook for short term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations

The Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are as follows: -

- 2016/2017 0.75%
- 2017/2018 1.25%
- 2018/2019 1.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 100 days during each financial year for the next eight years are as follows:

- 2016/2017 0.60%
- 2017/2018 1.25%
- 2018/2019 1.75%
- 2019/2020 2.00%

- 2020/2021 2.25%
- 2021/2022 2.50%
- 2022/2023 2.75%
- 2023/2024 2.75%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk. The Council has taken a prudent approach in determining the budgeted investment return of 0.53% on investments placed during the 2016/17 financial year.

4.5 Investment treasury indicator

There are currently no plans for funds to be invested for a period greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end. For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short rated deposits (overnight to 100 days) in order to benefit from compounding of interest.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Prudential and Treasury Management Indicators

Annex 1

Prudential Indicators

Indicator No.

1. The actual capital expenditure incurred in 2014/15 and the estimates of capital expenditure for the current and future years that are recommended for approval are:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Housing	977	974	892	892	892	892
Environmental Protective and Cultural Services	14,351	18,143	25,951	17,817	190	344
Total	15,328	19,117	26,843	18,709	1,082	1,236

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/15 are:

Ratio	0.79%	0.54%	0.54%	0.10%	0.74%	0.79%
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The estimates of financing costs include current commitments and the proposals in the budget report.

3. Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31st March 2015 are:

	31/3/15	31/3/16	31/3/17	31/3/18	31/3/19	31/3/20
	£000	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Total Capital Financing Requirement (Expenditure less capital grants and use of usable/setaside receipts)	11,739	11,643	11,547	11,451	11,355	11,259

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

To ensure that debt over the medium term is only for capital purposes, debt should not except in the short term exceed the Capital Financing Requirement for the previous, current and next two financial years.

4. Estimates of Impact of Capital Investment Decisions on the Band D Council Tax

	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
	Estimate	Estimate	Estimate	Estimate	Estimate
Wyre Council Band D Council Tax	180.16	180.31	180.34	180.37	180.42

These forward estimates reflect the impact of future capital programmes, are not fixed and do not commit the Council.

Prudential and Treasury Management Indicators

Treasury Management

Wyre Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services.

Indicator
No.

1. External Debt - Authorised Limit (Old Section 45 Limit/New Section 3 Limit)

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
	Estimate	Estimate	Estimate	Estimate	Estimate
Borrowing	24,000	24,000	24,000	24,000	24,000
Other Long Term Liabilities	0	0	0	0	0
Total Authorised Limit	24,000	24,000	24,000	24,000	24,000

Limit for total external debt (gross of investments).

2. External Debt - Operational Boundary (Reasonable Limit-day to day)

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
	Estimate	Estimate	Estimate	Estimate	Estimate
Borrowing	13,739	13,739	13,739	13,739	13,739
Other Long Term Liabilities (Deferred Liabilities)	4	4	4	4	4
Total Operational Boundary	13,743	13,743	13,743	13,743	13,743

Limit for total external debt (gross of investments).

3. Actual External Debt

	31/03/15
	£000
	Actual
External Debt-Temporary Borrowing	0
External Debt-PWLB	1,552
Other Long Term Liabilities	4
Total Actual External Debt	1,556

It should be noted that actual external debt is not directly comparable to the authorised limit or operational boundary, since the actual external debt reflects the position at one point in time.

Annex 2(cont)

4. Fixed Interest Rate Exposures

	2015/16	2016/17	2017/18
	%	%	%
	Estimate	Estimate	Estimate
Principal sums outstanding in respect of borrowing at fixed rates	100	100	100
Principal sums outstanding in respect of investments that are fixed rate investments	25	25	25

5. Variable Interest Rate Exposures

	2015/16	2016/17	2017/18
	%	%	%
	Estimate	Estimate	Estimate
Principal sums outstanding in respect of borrowing at variable rates	25	25	25
Principal sums outstanding in respect of investments that are variable rate investments	100	100	100

6. Maturity Structure of Borrowing

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a % of total projected borrowing that is fixed rate at the start of the period.

	Upper Limit	Lower Limit
Under 12 months	100	0
12 months and within 24 months	45	0
24 months and within 5 years	75	0
5 years and within 10 years	75	0
10 years and above	100	0

7. Total principal sums invested for periods longer than 364 days

	2014/15	2015/16	2016/17
	£000	£000	£000
	Estimate	Estimate	Estimate
Total principal sum invested to final maturities beyond the period end	0	0	0

MINIMUM REVENUE PROVISION POLICY STATEMENT 2016/17 (England and Wales)

1. The Council's Adopted Approach

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2016/17 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

All expenditure reflected within the debt liability at 31 March 2008 will under delegated powers be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (Asset Life Method). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives