

**Treasury Management
Practices**

Part 1: Main Principles

February 2009

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which the council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP 1 Treasury risk management

TMP 2 Best value and performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

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

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Staff training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

TMP 1 TREASURY RISK MANAGEMENT

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of the 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 Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to the document.

1) Liquidity risk management

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.

2) Interest rate risk management

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

It will achieve these objectives 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. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

3) Exchange rate risk management

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

It will achieve this objective 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 exchange rates. The

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4) Inflation risk management

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the organisation as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this objective 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 inflation. The above is subject at all times to the consideration and, if required, approval of any policy of budgetary implications.

5) Credit and counterparty risk management

The Council regards a prime 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* listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

6) Refinancing risk management

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 the market conditions prevailing at the time.

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

7) Legal and regulatory risk management

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 *TMP1.5 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislation 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.

8) Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to 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.

9) Market risk management

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.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

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

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

TMP3 DECISION-MAKING AND ANALYSIS

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

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

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

The delegation to the responsible officer in respect of the treasury management is set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Executive will receive:

- An annual report on the strategy and plan to be perused in the coming year
- An annual report on the performance of the treasury management function, on the effects of the decision taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and TMPs.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute of regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Best value and performance measurement, and TMP4 Approved instruments, methods and techniques. The form, which this organisation's budget will take, is set out in the schedule to this document. The responsible officer exercises effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this organisation's account is set out in the schedule to this document.

The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved policies. The information made available under present arrangements is detailed in the schedule to this document.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirement demand otherwise, all monies in the hands of the Council will be under control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring the compliances with TMP1 Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

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

TMP10 STAFF TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements. The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also 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. And it will ensure where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies, where services are subject to a formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

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

The Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in the treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**Treasury Management
Practices**

Part 2: Schedules

February 2009

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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

TMP 1 Treasury risk management

TMP 2 Best value and performance measurement

TMP 3 Decision-making and analysis

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TMP1 TREASURY RISK MANAGEMENT

1. Liquidity

Sufficient levels of short term investments and cash deposits will be kept available for the discharge of the Council's liabilities. This will include at least £5m available at 24 hours notice.

Bank balances will be maintained within the terms agreed with the Council's bankers, and by having regard to any constraints on the minimum sum that can effectively be invested.

The Council has an agreed overdraft facility of £1m with its bankers.

The Council may undertake temporary borrowing, in accordance with Part 1 of the Local Government Act 2003, if necessary to maintain a sufficient level of liquidity at a particular point in time.

2. Interest Rate

The upper limits for fixed and variable interest rate exposures in respect of net external debt are set each year by the Council as prudential indicators, in accordance with the Local Government Act 2003.

Upper limits on fixed interest rate exposures

This indicator sets the upper limits to which the Council is exposed to the effects of changes in fixed interest rates, and is calculated as borrowing that is at fixed rates less investments that are at fixed rates.

The prudential code guidance states that where in doubt borrowing and investments should be treated as being at variable rates for the purposes of this and the following indicator. With this in mind, borrowing in the form of LOBOs (Lenders Option, Borrowers Option) has been treated as being at variable rates as the rates are reviewed at agreed intervals of typically 6 months or a year.

This limit can be in terms of principal sums or the associated interest, and it can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount of principal sums. Officers consider this to be the most transparent method and the more straightforward to monitor.

The 2008-09 indicator is shown for completeness.

The limit has been set at a level that allows for flexibility. It allows for all new long-term borrowing for 2008-09 and 2009-10 to be at fixed rates (e.g. PWLB loans) and for the option of rescheduling of existing LOBOs to fixed

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rate loans. All borrowing decisions will be taken in line with best practice and prevailing market conditions and in consultation with the Council's treasury management advisers.

The limit also allows for a range of possibilities in respect of the value of temporary investments at any one point in time, as this is dependant on the cash position of the authority, and also for all the Council's temporary investments at the budgeted level of £66m to be in the form of fixed rate investments; typically the figure is around 80% to 90%.

Since the Council has an excess of temporary investments over debt, the calculation should result in a negative figure. The upper limit has therefore been set at zero – i.e. a positive result representing an excess of fixed rate debts over temporary investment would exceed the limit.

Upper limits on fixed interest rate exposures	
	Upper Limit £000
2008-09	0
2009-10	0
2010-11	0
2011-12	0

Upper limits on variable interest rate exposures

This indicator sets the upper limits to which the Council is exposed to the effects of changes in variable interest rates, and is calculated as borrowing that is at variable rates less investments that are at variable rates.

The prudential code guidance states that where in doubt borrowing and investments should be treated as being at variable rates for the purposes of this and the following indicator. With this in mind, borrowing in the form of LOBOs (Lenders Option, Borrowers Option) has been treated as being at variable rates as the rates are reviewed at agreed intervals of typically 6 months or a year.

This limit can be in terms of principal sums or the associated interest, and it can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount of principal sums. Officers consider this to be the most transparent method and the more straightforward to monitor.

The 2008-09 indicator is shown for completeness

The limit has been set at a level that allows for flexibility. It allows for all new long-term borrowing for 2008-09 and 2009-10 to be at variable rates or in the form of LOBOs. All borrowing decisions will be taken in line with best practice and prevailing market conditions and in consultation with the Council's treasury management advisers.

The limit also allows for a range of possibilities in respect of the value of temporary investments at any one point in time, as this is dependant on the cash position of the authority, and also for none of the Council's temporary investments at the budgeted level of £66m to be in the form of variable rate investments; typically the figure is around 10% to 20%.

The limit has been set in line with the Council's operational boundary for external borrowing (excluding long term liabilities) above.

Upper limits on variable interest rate exposures	
	Upper Limit £000
2008-09	38,000
2009-10	38,000
2010-11	38,000
2011-12	38,000

3. Exchange rate

The Council will only enter into loans and investments that are settled in £ sterling.

4. Inflation

Inflation, both current and projected, will form part of the debt investment decision-making criteria both within the strategy and as part of operational consideration. The risks are greater during periods of high or volatile inflation levels. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with the other risks covered in this schedule.

5. Credit and counterparty policies

As part of the annual Treasury Strategy, the Council will approve an Annual Investment Strategy (AIS). Under the Local Government Act 2003 the Council is required to have regard to the DCLG (formerly ODPM) Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in the Public Services Code of Practice (2001) and updated Guidance Notes (2006).

The DCLG Guidance on Local Government Investments requires that investments are split into two categories:

- Specified investments – broadly, sterling investments, not exceeding 364 days and with a high credit rating.
- Non-specified investments – do not satisfy the conditions for specified investments.

The detailed conditions attached to each of these categories are set out at the end of this section.

Specified investments

An investment is a specified investment if it satisfies the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e. it does not exceed 364 days duration).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate.
- Either of the following conditions is met:
 - (i) The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or a parish council or community council.
 - (ii) The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency (either Standard and Poor's, Moody's Investment Service Ltd or Fitch ratings Ltd).

The majority of the Council's investments will fall into the category of specified investments, as they relate to short term cash flow surpluses that can be invested until required to meet expenditure commitments.

The Council may enter into any type of investment instrument categorised as a specified investment. These are listed at TMP4 Approved instruments, methods and techniques. Any type of specified investment that has not habitually been used by the Council – i.e. has not been used within the previous twelve month period, will only be entered into after consultation with the Council's treasury advisers, and with the express approval of the Chief Finance Officer.

All investments, with the exception of those to other local authorities, will be placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory colour rating by the Council's treasury advisers, Sector Treasury Services, whose list is updated monthly. This list is based upon credit ratings issued by the three main rating agencies, and also taking into account other relevant factors, such as sovereign ratings. Any changes to ratings during the month are notified to the authority immediately and action taken to remove from/add to the list as appropriate.

Non-specified investments

The Council will set a limit each year for the level and type of non-specified investments that may be placed at any one time. This limit will be set in the Annual Investment Strategy and in the Prudential Indicators.

The only category of non-specified investments currently used are investments over 364 days. The maximum period of investment will be three years. These investments will only be placed with eligible counterparties, after consultation with Sector, and with the approval of the Finance Manager, Capital & Treasury.

Counterparties

The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.

The counterparty list may be further restricted with the approval of the Chief Finance Officer to limit the exposure of the authority to risk in times of economic or market uncertainty.

Treasury management staff will add or delete counterparties to or from the approved counterparty list in line with the policy on criteria for selection of counterparties, and as appropriate when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with. Credit ratings will be used as

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supplied by Sector Treasury Services, using Fitch ratings, or where counterparty does not have a Fitch rating, the equivalent Moody's rating. Professional advice will be taken from Sector Treasury Services on which institutions present the minimum level of risk to the authority.

The Council is alerted to changes in credit ratings, and other relevant data such as the rating watches, alerts or outlooks through its use of the Sector creditworthiness service. This information is monitored on a daily basis.

The maximum value for any single investment transaction will be £5m.

The maximum level of investment with any counterparty, or group of counterparties will be £10m.

The Chief Financial Officer will have the discretion to adjust maximum lending limits should it become necessary to enable the effective management of risk in relation to investments. Any adjustments in maximum lending limits under this paragraph will be reported to Cabinet subsequently.

The Council's current lending list and the criteria in place to determine inclusion in the list will be reported as part of the Annual Investment Strategy. This will not limit the Chief Finance Officer's discretion to make changes, so long as all investments are in line with the requirements set out above under specified or non-specified investments.

6. Re-financing

A schedule will be maintained of all long-term loans, including maturity profiles, in order to assist with the consideration of possible rescheduling opportunities that may arise as a result of changes to interest rates.

All rescheduling proposals will be fully costed in terms of costs/benefits to the organisation in the short, medium and long term, and in the context of the latest accounting guidance and regulations.

No refinancing of loans will be undertaken without the express approval of the Chief Finance Officer.

7. Legal and regulatory

All treasury management activities must be carried out within the current legal and regulatory framework.

This includes the following:

- Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

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- CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001
- ODPM Guidance on Local Government Investments 2004
- CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)
- The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008
- CIPFA Prudential Code for Capital Finance in Local Authorities 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

As well as the statutory and regulatory documents listed above, other statute and guidance may also be relevant – eg as relating to money laundering (see Schedule to TMP9)

Officers responsible for strategic and operational treasury management decisions are required to keep abreast of new legislation and regulations impacting on the treasury management function, and to apply any changes as necessary.

8. Fraud, error and corruption, and contingency management

All treasury activities must be carried out in strict accordance with the agreed systems and procedures in order to prevent opportunities for fraud, error and corruption.

Scheme of delegation and separation of duties

- (i) The Director of Finance & Support, the Council's Chief Finance Officer (CFO) and Section 151 Officer, has been nominated as the Responsible Officer.

All executive decisions on borrowing, investment or financing have been delegated to the CFO.

- (ii) Finance Manager – Capital & Treasury (FMCT)

The FMCT has been nominated as the Operational Manager and shall be responsible for managing the overall treasury function and ensuring that at all times there is compliance with the Schedules to the Treasury Management Practices (TMPs).

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The FMCT has the authority, together with CFO and other senior officers nominated by the CFO, including the Head of Finance, the Assistant Heads of Finance, and the other Finance Managers, on being satisfied that procedures have been complied with, to authorise the release of monies from the council's bank account, by whatever means appropriate, to repay monies borrowed or to invest short term temporary cash balances.

Neither the FMCT, the Head of Finance, the Assistant Heads of Finance, nor the other Finance Managers are authorised to enter into transactions with brokers for the borrowing or lending of any monies.

- (iii) The Assistant Accountant (AA) working to support the treasury management function in the Capital & Treasury Team is the main point of contact with the money market. In this capacity the AA is empowered to conclude deals with brokers or directly with counterparties for the borrowing and lending of monies on behalf of the Council within the conditions and criteria set out within the Schedules to the TMPs.

The AA may also carry out the administrative functions associated with the daily treasury activity in the absence of the Trainee Accountant (TA) – see below.

The CFO will nominate cover staff from within the Finance Section to cover this function in the absence of the AA.

Neither the AA, nor any person nominated to cover their role, is authorised to effect the final approval of monies to be released, by whatever means, from the Council's bank account.

- (iv) The Trainee Accountant (TA) working to support the treasury management function in the Capital & Treasury Team will be responsible for carrying out back office checks on the treasury activities on a daily basis.

The CFO will nominate cover staff from within the Finance Section to cover this function in the absence of the TA.

The TA will also carry out the administrative functions associated with the daily treasury activity.

A schedule will be maintained by the FMCT of all officers currently nominated for each level of delegation set above.

Cash flow

Cash Flow projections will be prepared as follows:

- For a full year when budgets are being prepared
- Rolling over on a financial year basis.
- For the forthcoming month, on a rolling basis

Comparisons of forecasts to actual figures will be undertaken in order to improve the accuracy of projections.

Dealing procedures

All dealing activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Strategy.

The AA will maintain a schedule of procedure notes, and ensure that these are made available to all relevant personnel.

All procedure notes will be reviewed and updated on a regular basis

Emergency and contingency planning arrangements

An on-line back up of all data contained on the Council's IT networks is taken at 7am and 12am each working day. A copy is taken each evening at 6pm, which is stored off site at the Guildhall.

In the event of failure of the electronic banking system, Financial Director, bank balances and other daily information that is normally downloaded first thing in the morning, can be obtained on the same day by means of a text file from the Co-op bank, which can be used to manually update our records.

In the event of the failure of the electronic CHAPS payment system a manual CHAPS form can be completed and submitted by 3.00pm to the bank for processing that day.

A back-up PC with links to the electronic banking system is kept at the Guildhall, and links and procedure notes are tested on a regular basis.

Treasury management spreadsheets relating to daily activity are held on the central finance network drive (J drive) in a protected directory that can only be accessed by staff with specific treasury roles.

There are at least three trained finance staff to cover each process of the day-to-day treasury function.

The FMCT will ensure that there is a procedure note for contingency arrangements, and that this is reviewed and updated on a regular basis.

Insurance cover details

Fidelity guarantee insurance cover is in place as required by law and officials indemnity insurance is also held by the Council.

Market value of investments

Currently the council does not hold any investments that are subject to fluctuations in market value e.g. gilts, CDs and therefore does not have any procedures or limits for controlling exposure to those instruments. If circumstances change procedures must be in place before such instruments are arranged.

TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENT

1. Evaluation of treasury management decisions

Management reporting

Monthly treasury management meetings will be held to review the previous month's treasury activity and to plan for the following month. Attendees at the meeting will be the Assistant Head of Finance (Financial Management and Planning), the Finance Manager (Capital & Treasury), the Assistant Accountant responsible for the operational treasury management, and the Trainee Accountant responsible for treasury administration and the back office function. The minutes and performance data arising from each meeting are reported to the Chief Financial Officer and the Head of Finance to provide regular management information on treasury management operations and performance. The terms of reference for the meeting are:

- 1 To record and review treasury management performance data
- 2 To discuss and agree or recommend actions pertaining to:
 - a) Treasury Management Performance Data
 - b) Investment Issues
 - c) Debt/Borrowing Issues
 - d) Debt Financing Budget
 - e) Treasury Management Strategic Issues
 - f) Treasury Management Processes and Procedures
 - g) Bank Contract
- 3 To report upwards to the Head of Finance and the Chief Financial Officer, by means of:
 - a) Performance Data
 - b) Documented Decisions and Action Points

Performance targets will be set as part of the Finance Service Plan, and these will be reported monthly to management through the Corporate Performance Reporting process. These will be reviewed and set annually, but will include as a minimum targets for the average rate of interest achieved on temporary investments, and parameters for the level of daily bank balances.

Reporting to members

An annual performance report, the Treasury Outturn Report, will be submitted to Cabinet and Council after the end of each financial year. The report to Council will be by 30 September following the financial year end.

2. Testing best value

Banking services will be re-tendered at least once every five years to ensure that the level of service reflects changing practices. During the life of the contract the Council's bankers will be required to be pro-active in drawing attention to new or innovative banking products that will assist with workflow, or which will generate savings for the Council in its banking related costs.

It is the Council's policy to appoint professional treasury management consultants specialising in local authority business, and this contract will be re-tendered at least once every five years.

The Council will use money broking services in order to make deposits or to borrow. A minimum of two money brokers will be used in order to compare the rates offered. For operational purposes three brokers will typically be used, given the number of investment transactions currently undertaken. The standard of service provided is monitored on an ongoing basis.

3. Benchmarking

The Council will complete and submit the annual CIPFA Capital Expenditure and Treasury Management Statistics to enable comparisons of treasury management service costs with other local authorities.

In addition the Council will have membership of the IPF Treasury Benchmarking Club, involving the completion of questionnaires and the attendance at meetings, usually twice a year. This membership is kept under review to ensure that it continues to be useful to the Council.

TMP 3 DECISION-MAKING AND ANALYSIS

1. Funding, borrowing, lending and new instruments/techniques

Records to be kept

Minutes of monthly **treasury management meetings**

For every **counterparty** with which the council has treasury dealings, the following data will be maintained:

- Name and address and local contact if appropriate
- Bank details, name, address, sort code and account number
- Counterparty type and sector (for CIPFA and DCLG returns)
- Borrowing and lending limits
- Maximum investment periods (see Schedule to TMP1 para 5)

For each **broker** the Council has dealings with the following data will be maintained:

- Name and address
- Local contact name
- Telephone and fax numbers
- Commission rates for borrowing

For each **transaction** the following data will be maintained:

- Counterparty
- Transaction type
- Value data
- Repayment date if known
- Initial interest rate
- Broker who arranged the transaction, if appropriate
- NBC reference
- Amount

If the transaction is a variable rate instrument details of interest rate revisions and the final repayment date will be maintained.

For each **long term loan** raised the following information will be entered into the loans register and full records maintained in a long term borrowing file.

- NBC reference
- Counterparty details
- Amount of loan
- Start and maturity dates

- Repayment method and period
- Interest rate and interest payment dates

Processes to be pursued

All treasury management activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Strategy.

The AA will maintain a schedule of procedure notes, and ensure that these are made available to all relevant personnel.

All procedure notes will be reviewed and updated on a regular basis.

Issues to be addressed

The Council's Financial Regulations, approved by Council on 19 November 2007, "delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management".

The Council's Section 151 Officer is the Director of Finance and Support, who is also the Council's Chief Finance Officer (CFO).

Day to day decisions have been further delegated to the FMCT and AA.

In respect of every decision made the Chief Finance Officer will:

- Above all be clear about the nature and extent of the risk to which the council may become exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- 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.
- Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transaction have been fully checked against the market, and have been found to be competitive.

Annex B

In respect of borrowing and other funding decisions, the Chief Finance Officer will:

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

In respect of investment decisions, the Chief Finance Officer will:

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the council to changes in the value of its capital.

Further details on how decision making processes are managed at an operational level, and in the context of the prevention and management of fraud, error and corruption and contingency management are contained in the Schedule to TMP1 – Section 8.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

1. Approved activities of the treasury management operation

These include:

- 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
- Use of external deposit accounts
- Leasing
- Managing any underlying rate risk associated with the Council's business activities.

2. Approved instruments for investments

In accordance with the Guidance on Local Authority Investments issued under Section 15 (1) (a) of the Local Government Act 2003 the instruments approved for investment by local authorities are sub-divided into specified and non-specified investments.

Specified investments are as follows, and must have a maturity of less than one year (i.e. 364 days or less)

- Gilts
- Treasury Bills
- Term deposits with local authorities and credit rated banks and building societies
- Certificates of deposit with credit rated banks and building societies
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534
- Triple A rated Money Market Funds (MMFs)
- Debt Management Office Deposit Facility
- Reverse Gilt Repos
- Forward deals with credit rated banks and building societies (negotiated deal period plus period of deposit must be less than 364 days)
- Commercial paper
- Gilt funds and other bond funds

Non- specified investments include those listed above with a maturity of one year or longer, together with investments placed with un-rated banks and building societies.

3. Investments methods and techniques

The Council may enter into any type of investment instrument categorised as a specified investment, as listed above. Any type of specified investment that has not habitually been used by the Council – i.e. has not been used within the previous twelve month period, will only be entered into after consultation with the Council’s treasury advisers, and with the express approval of the Chief Finance Officer.

The Council will set a limit each year for the level and type of non-specified investments that may be placed at any one time. This limit will be set in the Annual Investment Strategy and in the Prudential Indicators. The only category of non-specified investments currently used are investments over 364 days. The maximum period of investment will be three years. These investments will only be placed after consultation with Sector, and with the approval of the Finance Manager, Capital & Treasury.

All investments, with the exception of those to other local authorities, will be placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory colour rating by the Council’s treasury advisers, Sector Treasury Services, whose list is updated monthly. This list is based upon credit ratings issued by the three main rating agencies, and also taking into account other relevant factors, such as sovereign ratings. Any changes to ratings during the month are notified to the authority immediately and action taken to remove from/add to the list as appropriate.

Only counterparties in the Council’s current lending list, using the criteria determined by the Chief Financial Officer as set out at the Schedule to TMP 1 and in the Annual Treasury Strategy will be used.

All dealing activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Strategy.

4. Approved instruments for Borrowing

The statutory basis of the local authority’s power to borrow is derived from the Local Government Act 2003. Essentially a local authority may borrow (or invest) for any purpose relevant to its functions, under any enactment or “for the purpose of the prudent management of its financial affairs”.

Local authorities may only borrow in sterling, except with the consent of the treasury. It is generally held that they have no powers to use financial derivatives such as interest rate swaps.

The main source of local authority borrowing is through Public Works Loans Board (PWLB) loans. Other borrowing sources include money market instruments, including low start or stepped interest rate structures, such as LOBOs (Lenders Option, Borrowers Option).

Local authorities may also borrow from each other.

Local authorities are required by the 2003 Act to determine and keep under review limits as to how much money that can afford to borrow. The Council's Authorised Borrowing Limit as set in the Treasury Strategy and its Prudential Indicators must not be exceeded.

Regard must be had to the contents of TMP9 (money laundering).

5. Borrowing methods and techniques

Long-term borrowing

Long-term borrowing may take the form of loans from the Public Works Loans Board (PWLB) or from the market, including LOBO loans.

PWLB loans will be arranged directly with the PWLB, using their standard application procedures. Money market loans will be arranged via a money broker.

Advice from the Council's treasury advisers will be sought before entering into any long-term loan arrangements.

All long term borrowing will require the express approval of the Chief Finance Officer, who should also sign any associated internal or external approval or authorisation documentation. The Chief Finance Officer has the delegated authority to take the most appropriate form of borrowing from approved sources.

Short-term borrowing

The Council may take short-term deposits from other local authorities, arranged via a money broker, to facilitate the management of cash flow, and, under long established arrangements, from a small number of local organisations.

All borrowing activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Strategy.

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

1. Limits to responsibilities/discretion at executive levels

Council

The Council is responsible for receiving and reviewing reports on treasury management policies, practices and activities, including the setting and monitoring of the prudential indicators.

Cabinet

The Cabinet is responsible for the following:

- Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices
- Annual strategy/budget consideration and recommendation to Council
- Annual out-turn report consideration and recommendation to Council
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment if the total contract value exceeds the OJEU threshold
- Annual setting of prudential indicators consideration and recommendation to Council
- Regular monitoring of prudential indicators consideration and recommendation to Council.

2. Segregation of duties

Segregation of duties is achieved by the allocation of treasury duties to specific posts within the finance structure, and by the authority levels set up on the Financial Director system, used to make electronic CHAPS payments. See the Schedule to TMP1 for a full description of the levels of delegated responsibility and separation of duties designed to restrict opportunities for fraud and corruption.

conduct by both members and officers and therefore provides support to the Standards Committee. He is also responsible for the reporting of any actual or potential breaches of the law or maladministration to the full Council and/or Cabinet, and for ensuring that procedures for recording and reporting key decisions are operating effectively.

The Monitoring Officer, in conjunction with the Chief Executive and Section 151 Officer, has responsibility for advising Cabinet or the full Council on whether a decision is likely to be contrary to or not wholly in accordance with the Council's budget and policy framework.

The responsibilities of this post will include-

- Ensuring compliance by the Chief Finance Officer with the treasury management policy statement and treasury management practices and that they comply with the law
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- Giving advice to the Chief Finance Officer when advice is sought.

Chief Finance Officer

The Director of Finance and Support is the Council's Chief Financial Officer and the officer designated for the purposes of section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at Northampton Borough Council.

This post, as defined in Article 13 of the Constitution, has statutory duties in relation to the financial administration and stewardship of the authority. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Local Government Act 1972 (Section 151)
- Local Government Finance Act 1988
- Local Government and Housing Act 1989
- Local Government Act 2003
- Accounts and Audit Regulations 2003

These statutory duties are set out in more detail in the Council's Financial Regulations approved by Council on 19 November 2007,

The Council's Financial Regulations "delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management".

The detailed responsibilities are:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and to monitor compliance to the Code of Practice on Treasury Management.
- Ensuring that the annual Treasury Strategy Report and the annual Treasury Outturn Report are submitted to Council via Cabinet (See Schedule to TMP6)
- Reviewing the performance of the treasury management function and promoting best value.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommend or approving the appointment of external service providers (e.g. treasury advisors) in line with the approval limits set out in the Council's procurement rules.

The CFO 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. These powers have been delegated to officers as set out below.

The CFO and the Council's Monitoring Officer 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 in accordance with their statutory duties.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Monitoring Officer, the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is the responsibility of the CFO to ensure the treasury function complies with the requirements of the Non Investments Products Code (formerly known as the London Code of Conduct) for principals and broking firms in the wholesale markets.

Head of Finance/Assistant Head of Finance

These posts have line management responsibility through the structure of the department. As such they may carry out delegated tasks as instructed by the CFO. This may include delegated Section 151 responsibilities in her absence. They also have managerial responsibility for the tasks carried out by the operational manager and the other operational staff.

Operational Manager

The Finance Manager – Capital and Treasury (FMCT) will operate as the Operational Manager and shall be responsible for:

- Implementing and ensuring compliance with the policies and procedures as set out in the TMPs and schedules.
- Managing, on behalf of the CFO, the overall treasury management function ensuring that there is, at all times, an appropriate division of duties within the treasury team.
- Ensuring that the debt-financing budget is monitored within the annual budget monitoring process.
- Providing such reporting information, as determined by CFO, to enable her to fulfil her obligations as the Responsible Officer
- Ensuring that sufficient information is available at all times to satisfy the needs of internal and external audit requirements.
- Supervising treasury management staff
- Ensuring that staff in the treasury management team receive such training as is required for them to undertake their respective functions.

Assistant Accountant (AA)

The Assistant Accountant (AA) will operate as the Treasury Manager and be responsible for:

- The arrangement and execution of all transactions
- Adherence to the policies and practices on a day to day basis
- Maintaining relationships with third parties and external service providers on a day to day basis
- Ensuring that all loans received and investments repaid have been received into the Council's bank account on a day-to-day basis and for certifying such by initialling the appropriate sections of the agreed documentation. .
- Entering, arranging approvals and sending all CHAPS payments via Financial Director
- Raising the payment documentation for all loan repayments, interest instalments and investments and ensuring that all loans are

repaid on the due date and that interest payments are made on the appropriate date.

- Monitoring performance on a day to day basis
- Submitting management information reports to the Operational Manager and the Chief Finance Officer
- Keeping the Operational Manager informed of all matters relating to her responsibilities
- Identifying opportunities for improved practices
- Act as an early warning system should it appear that timely action is required by the Council to take account of changes in the money markets, which may have been advised by brokers or advisers

Trainee Accountant (TA)

The TA will provide clerical support to the treasury management function. This includes providing the back office function, which contributes to the separation of duties.

The post holder is responsible for:

- Preparation of the necessary documentation (letters, loan receipts etc) from the initial information provided by the TM, and subsequent despatch to the borrower/lender as appropriate.
- Checking that confirmation documentation provided by brokers, lenders and borrowers corresponds to the initial documentation prepared as above, alerting the AA of any inconsistencies and resolving discrepancies where appropriate.
- Entering the necessary information, from the documentation, on to the relevant electronic and hard copy records, ensuring that at all times, the databases are accurate and up-to-date
- Back office checks as set out in the treasury procedure notes
- Completing all relevant journal entries into Agresso
- Preparing weekly and monthly reconciliations and performance data

Internal Audit

The treasury management function will be the subject of an internal audit review each year and full and free access to all records will be given.

This review will include:

- Reviewing compliance with approved policy and procedures
- Reviewing division of duties and operational practices
- Assessing value for money from treasury activities
- Undertaking probity audit of treasury function

5. Cover arrangements and business continuity

An adequate number of nominated officers at an appropriate level are trained and set up to provide cover arrangements. A schedule is maintained of lead and cover responsibilities for dealing, manual and system authorisation, back office checks, and system support. The schedule includes colour coding to demonstrate the segregation of duties to be practiced; this is backed up by system controls. The schedule is reviewed and updated or confirmed each month at the monthly treasury management meeting.

6. Dealing limits

The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.

The counterparty list may be further restricted with the approval of the Chief Finance Officer to limit the exposure of the authority to risk in times of economic or market uncertainty.

Treasury management staff will add or delete counterparties to or from the approved counterparty list in line with the policy on criteria for selection of counterparties, and as appropriate when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with. Credit ratings will be used as supplied by Sector Treasury Services. Professional advice will be taken from Sector Treasury Services on which institutions present the minimum level of risk to the authority.

The maximum value for any single investment transaction will be £5m.

The maximum level of investment with any counterparty, or group of counterparties will be £10m.

The Chief Financial Officer will have the discretion to adjust maximum lending limits should it become necessary to enable the effective management of risk in relation to investments. Any adjustments in maximum lending limits under this paragraph will be reported to Cabinet afterwards.

The Council's current lending list and the criteria in place to determine inclusion in the list will be reported as part of the Annual Investment Strategy. This will not limit the Chief Finance Officer's discretion to make changes, so long as all investments are in line with the requirements set out above under specified or non-specified investments.

7. Approved brokers

The Council currently uses the following money brokers

- ICAP Europe Ltd
- Tullett Prebon (Europe) Ltd
- Tradition (UK) Ltd

It is considered good practice to use a minimum of two brokers; three is the number that it is considered by the Council to be operationally suitable given the number of investment transactions typically undertaken. The standard of service provided is monitored on an ongoing basis.

There is no direct charge to the Council for using money brokers; their fees are met through commission received from the counterparty to the investment.

8. Policy on the taping of conversations

All external treasury management calls related to the dealing process are tape-recorded.

9. Direct dealing practices

Direct dealing arrangements have been set up with a limited number of counterparties, and this is used as an additional tool to achieve further spreading of counterparty risk, to aid flexibility and to improve on interest rates offered.

Direct dealing arrangements are only set up with authorised counterparties. Prior to new arrangements being set up the counterparty is supplied with a list of officers authorised to deal on behalf of the Council and a copy of the Council's standard bank settlement instructions.

10. Settlement transmission procedures

Settlement transmission procedures are set out in the treasury management procedure notes.

11. Documentation requirements

Documentation requirements are set out in the Schedule to TMP3, above, and the treasury management procedure notes.

12. Management of third party funds

Under long established arrangements the Council takes short-term deposits, treated as temporary borrowing, from a small number of local organisations.

Formal agreements have been drafted for the management of these funds. Negotiations are under way, and it is anticipated that the legal agreements will be in place from 1st April 2009. Interest review dates will be quarterly, and the interest rates will be set at the Council's average rate for approved investments for the previous quarter, less 0.5% to cover administrative costs.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

1. Council and Cabinet Reports

In accordance with the 2001 CIPFA Code of Practice on Treasury Management the Council will receive, via Cabinet, the following reports:

Before the commencement of the year – an annual **Treasury Management Strategy Report**, incorporating:

(i) The Capital Financing and Borrowing Strategy for the coming year including:

- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
- The Affordable Borrowing Limit as required by the Local Government Act 2003.

(ii) The Investments Strategy for the coming year as required by the DCLG (formerly ODPM) Guidance on Local Government Investments issued in 2004.

The report will deal with the raising of capital finance, investment of surplus monies and managing cash flow externally and between the Council's funds as appropriate. It will also include a review of the council's approved clauses and TMPs (if applicable).

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.

The Strategy Report will include the following elements:

Capital Financing and Borrowing Strategy

- Capital Financing
- Existing Borrowing
- New Borrowing
- Minimum Revenue Provision
- Borrowing Requirement
- Debt Rescheduling
- Long Term Interest Rates for Borrowing
- Sensitivity of Forecasts
- Borrowing Strategy

- Prudential Indicators
- Affordable Borrowing Limit
- Temporary Borrowing
- Overdraft Facilities

Investment Strategy

- Current Investment Portfolio
- Specified/ Non specified Investments
- The investment strategy;
- Liquidity of Investments
- Counterparties
- Bank Base Rate
- Short Term Interest Rates for Investments
- Sensitivity of Forecasts
- Prudential Indicators

Other

- The proposed Debt Financing Budget for the coming three years
- Demonstration of adherence to the Council's policy on reserves and balances
- Compliance with the requirement under the Local Government Act 2003 to produce a balanced budget

Should it prove necessary to amend the prudential indicators during the year Council must approve the changes via a recommendation from Cabinet.

By 30 September following the year end – an annual **Treasury Outturn Report** on the overall operation of the treasury management function demonstrating compliance with the agreed policies/practices and responsibilities under the Local Government Act 2003

The report will include a comprehensive picture for the financial year of all treasury policies, plans, activities and results, together with performance monitoring information and analysis.

Monthly **Debt Financing Budget Monitoring** information will be prepared and presented to Cabinet as part of the Council's overall revenue budget monitoring cycle

2. Reports to the Chief Finance Officer

The following performance reports will be submitted to CFO on a monthly basis via the monthly treasury management meetings.

Annex B

- Actual cash flow against projected cash flow for previous month and cash flow projections for the next 8 weeks.
- Details of all outstanding loans, including name of lender, amount, period and interest rates.
- Details of all outstanding investments including name of borrower, amount, period and interest rates
- Variations on actual daily bank balances against targets
- Average monthly rates achieved on temporary investments, with base rate and average 7–day LIBID and LIBOR rates as comparators.
- Details of any variations (if any) from agreed policies/practices

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

1. Budgeting arrangements

The FMCT will prepare a three-year medium term financial plan, including prudential indicators for treasury management, which will incorporate the debt financing and debt management budget for the forthcoming year and provisional estimates for the following three years. The debt financing and debt management budgets will be included in the annual revenue budget taken to Council for approval each year. The prudential indicators will be taken as a separate report to the same budget setting Council meeting.

The proposed debt financing and debt management budget for the forthcoming three year period will also be attached as an annex to the annual Treasury Strategy report, which will also be taken to the same budget setting Council meeting.

The budget and the prudential indicators will be monitored at regular intervals throughout the year as part of the Council's overall budget monitoring arrangements and significant variances reported at an early stage. Any revisions to the prudential indicators will require Council approval.

2. Accounting practices and standards

All current accounting standards, regulations, practices and guidance pertaining to budgeting and accounting will be followed. This will include the CIPFA Accounting Statement of Recommended Practice (SORP) and Best Value Accounting Code of Practice (BVACOP), as well as the treasury management specific documents referred to at the Schedule to TMP 1.

3. Information requirements of external auditors

Year-end figures and working papers on the Council's debt and investment will be provided as required for the Council's annual Statement of Accounts in line with the requirements of the latest CIPFA SORP (Statement of Recommended Practice).

The working papers provided will be of sufficient quality to include all relevant supporting information reasonably required by the external auditors, set out in a clear and logical manner and providing a clear audit trail.

Any other information or supporting documents reasonably requested by the council's external auditors will be provided in a timely manner.

TMP 8 CASH AND CASH FLOW MANAGEMENT

1. Cashflow forecasts

The Assistant Accountant responsible for day-to-day treasury function will prepare forecasts of daily cashflow as follows:

- Annually as part of the budget process
- For revisions to the agreed budget as necessary
- Reports to the monthly treasury management meetings with the Finance Manager – Capital and Treasury, Assistant Accountant and Trainee Accountant for the coming period
- Updated daily to reflect latest position and forecasts

Types of information to be used for cashflow forecasts include the following:

- Details of all BACS runs
- Details of large cheques drawn
- Details of forthcoming Right-to-Buy and shared Ownership sales
- Annual schedule of RSG and NDR receipt/payments
- Housing Benefits subsidy payments or receipts
- Details of local precepts and levies
- Details of loan interest and principal payable.
- Details of returns of previous investments

The Council will have an overdraft facility with its bankers. This will only be used to cover unforeseen events; usage should be kept to a minimum and generally relates to relatively small balances of below £50k. The use of the overdraft facility should be monitored on a daily basis and reported monthly to senior managers through the performance reporting framework.

2. Bank statement procedures

Electronic bank statement extracts are downloaded daily via the electronic system (Financial Director) in order to calculate the net cash position and to take investment or short term borrowing action as necessary.

Electronic and hard copy bank statements are received and reconciled by the Corporate Finance team. From 1 April 2009, the reconciliation processes will be automated through Agresso.

3. Payment scheduling and agreed terms of trade with creditors

The Council's normal settlement terms are 30 days in accordance with Best Value Performance Indicators (BVPI8). In the current economic climate, and to support local businesses, efforts are being made to make payment to NN postcodes within 10 days.

Payments are made by BACS wherever possible and payment runs are made daily. Other BACS runs are made for salaries/wages and housing benefit payments.

Bank details are request from all new suppliers in order to keep cheque payments to a minimum in order to reduce costs.

4. Procedures for banking of funds

All income coming into the authority needs to be banked promptly. From the 1st April 2009 all payments received into the authority will need to be banked via an E-Return. All individual departments that receive income will be issued paying in books that are specific for their individual area and will submit separate banking returns for cash and cheque payments. E>Returns is a simple and effective tool for processing payments onto the Council's cash /cheque collection system which feeds into Agresso.

Northampton Borough Council is closing its cash offices in a phased closure programme. Kingsthorpe cash office is closing on 27th February 2009, whilst Weston Favell and Guildhall are closing on 31st March. Customers wishing to pay cash can still pay cash but at Payzone and Post Office locations throughout Northampton. There are almost 100 payzone locations in Northampton and 26 Post Offices in Northampton.

TMP 9 MONEY LAUNDERING

1. Wider context

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 substantive criminal law (the Criminal Justice Act 1993, Drug Trafficking Act 1994, Proceeds of Crime 2003 etc) applies to all individuals.

In summary it is an offence to assist anyone suspected of laundering money generated by any serious crime. It is a defence for an individual if they have reported knowing, or suspecting, at the first available opportunity. If a person knows or forms a suspicion in the course of their professional activity that a transaction is related to drugs or terrorism, it is an offence not to report it as soon as reasonably practical. Anyone reporting a suspicion of money laundering is protected against being sued by clients for breach of confidentiality. Disclosure to clients or to anyone else that they are the subject of a report, or that they are under investigation, is an offence. All of these are personal obligations.

2. Procedures for establishing the identity or authenticity of lenders

The Council does not accept loans from individuals. All long-term loans are obtained from the PWLB, or from authorised institutions under the Financial Services and Market Act 2000. A register of these institutions is maintained by the Financial Services Authority (FSA) and can be accessed through their website on www.fsa.gov.uk.

The Council may also take short-term deposits from other local authorities, to facilitate the management of cash flow, and, under long established arrangements, from a small number of local organisations.

3. Other NBC arrangements

Any suspicions of money laundering must be reported immediately to the Head of Finance in his role as the Money Laundering Reporting Officer.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

1. Training and qualifications

It is vital to the success of the treasury function that all members of the treasury management team, and all other individuals undertaking treasury roles, are suitably qualified and receive sufficient training to enable them to carry out their functions effectively and to a high standard.

Training can be achieved in a number of ways. Professional qualifications and specific internal and external training courses are evidently important. Work shadowing and on the job training are also valuable training tools and will be undertaken on an ongoing basis as required. In addition general awareness training that comes from reading appropriate publications and electronic communications on a regular basis is essential to keep up to date with the external environment in order to contribute to the successful operation of the treasury management function.

The individual training needs of those involved in the treasury management function at the Council are assessed in the table below. Professional and AAT qualifications are in line with the requirements of the post. The level and nature of other training will be as appropriate to the role.

Treasury Role	CCAB Qualified	AAT Qualified	External Seminars/ Workshops	In-house training	Reading
Chief Finance Officer/ S151 Officer	Yes	N/A	Yes		Yes
Head of Finance	Yes	N/A	Yes		Yes
Assistant Head of Finance	Yes	N/A	Yes		Yes
Finance Manager	Yes	N/A	Yes		Yes
Assistant Accountant responsible for day to day function		Yes	Yes	Yes	Yes
Cover for above		Yes	Yes	Yes	
Trainee Accountant responsible for back office cover and treasury administration		Trainee	Yes	Yes	
Cover for above		Trainee		Yes	
System support				Yes	

2. Statement of Professional Practice (SOPP)

Where the Chief Financial Officer is a member of CIPFA, there is a professional requirement for the post holder to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

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

Similarly the Chief Financial Officer as a CCAB member and other staff as CCAB or AAT members are required to follow the professional standards and codes of conduct of their own professional bodies.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

Details of existing contracts with service providers are set out in the paragraphs below.

1. Banking services

The current supplier of service is the Co-operative Bank plc. The current contract commenced 1st April 2004 with an initial contract period of three years and an option to extend for a further three years. This option has been exercised and the current contract will expire on 31 March 2010. A full re-tendering exercise will be undertaken during Spring/Summer 2009, with the new banking contract running from 1 April 2010.

The costs of the banking service are provided for in the Council's annual revenue budget. Payments under the contract are due on a combination of monthly and quarterly frequency.

2. Money-broking services

The Council currently uses the following money brokers

- ICAP Europe Ltd
- Tullett Prebon (Europe) Ltd
- Tradition (UK) Ltd

It is considered good practice to use a minimum of two brokers; three is the number that it is considered by the Council to be operationally suitable given the number of investment transactions typically undertaken. The standard of service provided is monitored on an ongoing basis.

There is no direct charge to the Council for using money brokers; their fees are met through commission received from the counterparty to the investment.

3. Treasury Management Advisers services

The current supplier of service is Sector Treasury Services Ltd. The current contract commenced 20 March 2005 with an initial contract period of three years and an option to extend for further years, year on year. The contract has been extended to 19 March 2009.

A new treasury management adviser contract is currently being procured, in line with the Council's procurement rules, to run from 20 March 2009. The outcome of this exercise is not yet determined.

Annex B

The costs of the service are provided for in the Council's annual revenue budget. Payments under the contract are based on a fixed fee, payable half yearly in arrears. Additional services are available at rates specified in the contract.

TMP 12 CORPORATE GOVERNANCE

1. Arrangements for corporate governance

The Council produces an Annual Governance Statement in its annual Statement of Accounts. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is responsible for putting into place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council produces an Annual Governance Statement in its annual Statement of Accounts, which explains the corporate governance arrangements that the Council has in place and how it ensures compliance with these arrangements.

The council has adopted and has implemented the key recommendations of the CIPFA's Treasury Management in the Public Services: Code of Practice 2001 and 2006 update. This, together with detailed arrangements contained in the Schedules to TMP 1-11, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Documents subject to Cabinet or Council approval and available to the public on the Council's website include:

- Annual Treasury Strategy Report
- Annual Treasury Outturn Report
- Prudential Indicators Setting Report
- Prudential Indicators Monitoring Reports
- 3 Year Revenue Budget Setting Report
- 3 Year Capital Programme Report
- Annual Statement of Accounts.