Agenda item 11

Bristol City Council
Audit Committee

29 January 2016

Report of: **Strategic Director, Max Wide**

Report Title: **Treasury Management Strategy Statement 2016/17 and Treasury Management Practices**

Ward: **City Wide**

Officers presenting report:
Janet Ditte, Deputy Chief Finance Officer (Section 151 Officer)

Contact telephone no. **0117-9037697**
& e-mail address: **janet.ditte@bristol.gov.uk**

Contact Telephone Number: 0117 92 22413

Purpose of the report:

To present the Treasury Management Strategy Statement (TMSS) for 2016/17 and the Treasury Management Practices (TMPs) for scrutiny.

RECOMMENDATION:

That Audit Committee recommends Council to approve the Treasury Management Strategy Statement (Appendix 1) incorporating the Prudential Indicators and MRP Policy Statement

That Audit Committee approves the Treasury Management Policy Statement (Appendix 2) and the Treasury Management Practices and Associated Schedules (Appendix 3)

Background

1. Treasury management is an integral part of the Council's finances providing for cash flow management (i.e. ensuring cash is available when needed and that surplus monies are invested securely) and funding of the Council's capital plans and longer term cash flow requirements.

2. The Council is required by legislation and guidance to produce three strategy statements in relation to treasury management arrangements:

   • A ***Treasury Management Strategy*** which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities;

- An ***Annual Investment Strategy*** which sets out the Council's policies for managing its investments and for giving priority to the security over liquidity and yield

- A Policy statement on the basis on which provision is made in the revenue accounts for the repayment of borrowing – *the **Minimum Revenue Provision Policy Statement***

3. The Council is also required to have regard to the CIPFA Code of Practice on Treasury Management which requires:

   - **A Treasury Management Policy Statement** (Appendix 2) which sets out the policies and objectives of the Councils treasury management activities

   - **Treasury Management Practices** (Appendix 3) which set out the manner in which the Council will seek to achieve those policies and objectives and clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions

4. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management arrangements.

Treasury Management Strategy Statement 2016/17

5. The proposed Treasury Management Strategy Statement (TMSS) for the period 2016/17 is attached at Appendix 1. The Strategy has been developed in consultation with our treasury management advisors, Capita Asset Services. This statement also incorporates the Investment Strategy.

6. Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

7. The TMSS Report also deals with the setting of Prudential Indicators which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent.

8. Capital spending is essential to Bristol's future reflecting how the council will evolve in the coming years. Any Council spending on capital projects that is not financed from grants and capital receipts is paid for with money the Council borrows.

9. Every year a portion of the Councils revenue budget must be used to fund debt service, i.e. the payment of interest and principal on debt outstanding. The more the Council spends on servicing debt, the less funds are available for the day to day running costs of services.

10. The capital programme is primarily financed by long-term debt for two main reasons:

    - Equity - current taxpayers contribute to the debt financing costs for the facilities they use even though they were funded in previous periods, and that future taxpayers contribute to assets currently being brought into use

- Stability – because capital projects vary considerably in size, complexity and cost the stream of expenditure can be considerably lumpier than the revenue budget. To pay for the entire capital programme as part of the general revenue budget would require erratic changes in council tax from year to year.

11. The Council's high level policies for borrowing and investments are:

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

12. Key points to note with regard to the Treasury Management Strategy:

- Overall the Council has a borrowing requirement of £260m by 2018/19. £217m of this is currently temporarily funded from internal sources (balances and reserves). Based on current plans and forecasts, the Council will have to externally borrow a minimum of £150m over the MTFS period.

- Consideration will be given to all forms of borrowing/financing at the most advantageous time, as set out in the Strategy. This will include the PWLB, markets, Bond issues etc

- Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Service Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    - *if it was 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 was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast* 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

- The use of internal resources in lieu of borrowing is likely to be the most cost effective means of financing capital expenditure in 2016/17. However, subject to the future use of reserves, this will only defer rather avoid the need for long-term borrowing at some point over the MTFS period and,

- The proportion of the revenue budget servicing debt is currently around 9.5% This is forecast to increase to around 13.7% by 2018/19.

- The Annual Investment Strategy sets out the minimum acceptable credit quality of counterparties for inclusion on the lending list. There are no significant changes to the investment strategy in 2016/17.

- The Chief Financial Officer is authorised to limit, but not extend, the criteria for investment set out in the Treasury Management Strategy

Treasury Management Practices

13. The Treasury Management Practices set out the manner in which the Council will seek to achieve the policies and objectives set out in the Treasury Management Policy Statement (Appendix 2) and how we will manage and control those activities.

14. Specific details of the systems and routines to be employed and the records to be maintained take the form of Schedules to the TMP's. The TMPs and associated schedules have been reviewed and updated in accordance with current guidance and are attached at Appendix 3.

Risk Assessment

15. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of treasury management activities will be measured.

Other options considered:
No other options are considered prudent at the present time.

Public sector equality duties:
There are no proposals in this report which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Environmental checklist / eco impact assessment
Not applicable.

Resource and legal implications:

Finance

a. Financial (revenue) implications – Service Director - Finance:
As set out in the report

b. Financial (capital) implications:
As set out in the report

c. Legal implications:
Not applicable for this report

d. Land / property implications:
Not required for this report

e. Human resources implications:
Not applicable for this report

Appendices

Appendix 1 - Treasury Management Strategy Statement

Appendix 2– Treasury Management Policy Statement

Appendix 3 – Treasury Management Practices and Associated Schedules

APPENDIX 1

Treasury Management Strategy Statement

1 BACKGROUND

1.1 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.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure 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.

1.3 The Chartered Institute of Public Finance Accountants (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."

1.4 The Council is also required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (2011) which requires the following:

(i) A Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management arrangements (Annex 1).

(ii) Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

(iii) Approval by Full Council of an annual Treasury Management Statement.

(iv) A Mid-year Treasury Management Report – this will update the Council with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

(v) An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

(vi) That the Council nominates one of its committees to keep under review treasury management arrangements and to scrutinise reports befor being recommended to the Council. This role is undertaken by the Audit Committee.

1.5 The Treasury Management 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

- current and projected treasury position;
- treasury indicators which 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 the use of external service providers.

1.6 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 responsibe for scrutiny. A training event for members was undertaken in January 2015 and further training will be arranged as required.

1.7 The training needs of treasury management officers are periodically reviewed.

1.8 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 service providers.

1.9 The Council 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 – 2018/19

2.1 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.

Capital expenditure

2.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table also summarises how the capital expenditure plans are being financed. Any shortfall of resources results in a borrowing need. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Non-HRA	121	196	134	64	15
HRA	32	48	56	50	50
Total	**153**	**244**	**190**	**114**	**65**
Financed by:					
Capital receipts	(15)	(16)	(29)	(23)	(23)
Capital grants	(55)	(85)	(38)	(13)	(6)
HRA Self Financing	(30)	(37)	(32)	(32)	(32)
Revenue	(6)	(35)	(10)	-	-
Net financing need for year	**47**	**71**	**81**	**46**	**4**

The Council's borrowing need (the Capital Financing Requirement)

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

2.4 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.

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

Council is not required to separetely borrow for these schemes. The Council currently has £162m of such schemes within the CFR.

2.6 The Council is asked to approve the CFR projections below:

	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
CFR – non housing	308	367	433	465	451
CFR – PFI/Lease schemes	162	155	148	141	134
CFR – housing	245	245	245	245	245
Total CFR	**715**	**767**	**826**	**851**	**830**
Movement in CFR	**31**	**52**	**59**	**25**	**(21)**
Net financing need for year	47	71	81	46	4
Less MRP & other financing	(16)	(19)	(22)	(21)	(25)
Movement in CFR	**31**	**52**	**59**	**25**	**(21)**

Minimum revenue provision (MRP) policy statement

2.7 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 allowed to undertake additional voluntary provision.

2.8 The Department of Communities and Local Government (CLG) have issued Regulations which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR; This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option *must be applied for any expenditure capitalised under a Capitalisation Direction);*

This option provides for a reduction in the borrowing need over approximately the asset's life.

2.9 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

2.10 Repayments included in annual PFI or finance leases are applied as MRP.

2.11 The Council participates in the Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five year cash advance from the local authority to match the five year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position is reviewed on an annual basis.

Affordability prudential indicators

2.12 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. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:The Prudential Code requires that the Council set a series of indicators on a three year time frame. The Prudential Indicators are there to demonstrate that the Council can afford the proposed capital programme and that such expenditure is sustainable and prudent.

2.13 **Ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	8.8%	9.5%	10.5%	11.3%	13.7%
HRA	8.9%	8.6%	8.6%	8.6%	8.6%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.14 **Estimates of the Incremental impact of capital investment decisions on council tax Housing Rent levels**. This indicator identifies the debt revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates over a three year period.

There are no expected increases in Council Tax or Housing Rent levels following the Capital Investment decisions within this report over the medium term as these have been budgeted for in prior periods.

3 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's 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.

Current and projected portfolio position

3.2 The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
External Debt 1 April	415	415	415	490	565
Expected change in debt	-	-	75	75	-
Other long-term liabilities	168	162	155	148	141
Expected change in other long-term liabilities	-6	-7	-7	-7	-7
Actual gross debt 31 March	**577**	**570**	**638**	**706**	**699**
Capital Financing Requirement	**715**	**787**	**875**	**855**	**830**
Under borrowing	**138**	**217**	**237**	**149**	**131**

Gross Debt and the Capital Financing Requirement

3.3 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 2016/17 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.

3.4 The Director of Finance reports that 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.

Treasury Indicators: limits to borrowing activity

3.5 **The operational boundary**. This 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.

	2015/16 Estimate £'m	2016/17 Estimate £'m	2017/18 Estimate £'m	2018/19 Estimate £'m
Debt	415	490	565	565
Other long-term liabilities	162	155	148	141
Total	**577**	**645**	**713**	**706**

3.6 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. 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.

	2015/16 Estimate £'m	2016/17 Estimate £'m	2017/18 Estimate £'m	2018/19 Estimate £'m
Total	**830**	**920**	**900**	**870**

3.7 **HRA CFR limit**. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

	2015/16 Estimate £'m	2016/17 Estimate £'m	2017/18 Estimate £'m	2018/19 Estimate £'m
HRA debt cap	257	257	257	257
HRA CFR	245	245	245	245
HRA Headroom	**12**	**12**	**12**	**12**

Prospects for interest rates

3.8 The Council has appointed a treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their view.

Period	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Dec 2015	0.50	2.30	2.90	3.60	3.50
Mar 2016	0.50	2.40	3.00	3.70	3.60
Jun 2016	0.75	2.60	3.10	3.80	3.70
Sep 2016	0.75	2.70	3.20	3.90	3.80
Dec 2016	1.00	2.80	3.30	4.00	3.90
Mar 2017	1.00	2.80	3.40	4.10	4.00
Jun 2017	1.25	2.90	3.50	4.10	4.00
Sep 2017	1.50	3.00	3.60	4.20	4.10
Dec 2017	1.50	3.20	3.70	4.30	4.20
Mar 2018	1.75	3.30	3.80	4.30	4.20
Jun 2018	1.75	3.40	3.90	4.40	4.30
Sep 2018	2.00	3.50	4.00	4.40	4.30
Dec 2018	2.00	3.50	4.10	4.40	4.30
Mar 2019	2.00	3.60	4.10	4.50	4.40

3.9 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications (further detail in Annex 2):

- Counterparty risks appear to have eased but market sentiment remains changing and economic forecasts uncertain.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been volatile during 2015 following the release of good and bad news promoting optimism, and pessimism in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this will be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

3.10 Based on current cash flow forecasts, it is estimated that the Council will have a borrowing requirement of £150m over the MTFS period. The most significant consideration from a treasury management perspective is the timing and duration of that borrowing. Should the financial environment change and borrowing is deemed advantageous the Council will seek to borrow long-term loans below a target rate of 4.0% and short-term medium term loans below a target rate of 3.00%.

3.11 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.

3.12 Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Service Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was 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 was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, 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.*

3.13 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

- Long-term and short term fixed interest rates are expected to rise modestly over the medium term. The Service Director-Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

- The option of postponing borrowing and running down investment balances strategy has been applied throughout 2015/16, and this approach will continue to be applied in future years until balances are reduced to adequate liquidity requirements unless it was felt that there was a significant risk of a sharp rise in interest rates.

- The Councils borrowing strategy will give consideration to new borrowing in the following ways:

  - The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years;

  - PWLB loans for up to 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing, which will spread debt maturities away from a concentration in longer dated debt;

  - PWLB loans in excess of 10 years where rates are considered to be low and offer the Council the opportunity to lock into low value long-term finance;

  - Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio;

  - Long term borrowing from the Municipal Bond Agency if available and appropriate and rates are lower than those offered by the Public Works Loan Board (PWLB).

3.14 The authority is planning to borrow £75m in 2015/16 and the same in 2017/18, to finance the expected Prudential Borrowing requirement of £91m in 2016/17 and £110m in 2017/18 as set out in the Capital programme. The remainder will be financed using current investment balances. This will minimise the increase in net debt financing costs and reduce counterparty risk.

3.15 The Council will seek to undertake temporary borrowing (less than one year) loans to cover day-to-day cashflow requirements as and when required. Such a decision will be based on the availability of and access to cash in deposit accounts and money market funds to cover the cashflow requirement, whilst also considering the most efficient method for the authority.

3.16 Temporary borrowing will also be considered when the draw down deadline for a deposit account for same day transfer has passed, thus resulting in borrowing cash from the money markets.

3.17 The Service Director Finance will be kept informed of the temporary loans outstanding at the monthly Treasury Management Group meeting.

Policy on borrowing in advance of need

3.18 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 that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.19 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

3.20 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).

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

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

3.23 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

Municipal Bond Agency

3.24 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

Introduction: changes to credit rating methodology

4.1 The Council's investment policy has regard to the CLG's Guidance on Local Government.

Investment policy

4.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 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, then return.

4.3 In accordance with the above 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.

4.4 Ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relationto the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such a 'credit default swaps' and overlay that information on top of the credit ratings.

4.5 Other information sources including 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.

4.6 Investment instruments identified for use in the financial year are listed in appendix 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness policy

4.7 The primary principle governing the Council's investment criteria is the security of its investments, whilst liquidity and the yield on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.8 The Service Director - Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

4.9 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are considered before making investment decisions.

4.10 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- **Banks 1** - good credit quality **–** the Council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A- (or equivalent)

- **Banks 2** – Part nationalised UK banks – Royal Bank of Scotland. This bank can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- **Bank subsidiary and treasury operation** - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- **Building societies** - the Council will use all societies which meet the ratings for banks outlined above.

- **Money market funds** – AAA rated (sterling)

- **Enhanced money market funds** (EMMFs) – AAA rated (sterling)

- **UK Government** (including gilts and the DMADF)

- **Local authorities, parish councils etc**

- **Supranational institutions**

- **Local Authority Mortgage Scheme**. Under this scheme the Council is required to place funds of £3m, with Lloyds Bank Plc (£2m) and Leeds Building Society (£1m) for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified/non specified categories.

A limit of £40m will be applied to the use of non-specified investments

Country and sector considerations

4.11 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 with a minimum sovereign credit rating of AA- from Fitch (or equivalent). In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.12 **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision. This additional market information (for example Credit Default Swaps (CDS), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

4.13 Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 - higher quality	*AAA*	£40m	5 Years
Banks 1 - medium quality	*AA-*	£20m	3 Years
Banks 1 - lower quality	*A-*	£10m	1 Year
Banks 2 – part-nationalised	N/A	£10m	1 Year
Limit 3 category – Council's banker (not meeting Banks 1/2)	-	£100k	Liquid
Other institutions limit*	-	£30m	1 Year
DMADF	AAA	unlimited	1 Year
Local authorities	-	£40m	5years
Money market funds (MMF) (Including Enhanced MMF)	AAA	£40m	liquid

**The Other Institution Limit will be for Gilt and Supranational investments*

The proposed criteria for specified and non-specified investments are shown in Appendix 3 for approval.

4.14 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

4.15 For its cash flow generated balances, the Council will seek to utilize its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.16 **Investment return expectations**. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

Budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2016/17 0.90%
2017/18 1.50%
2018/19 2.00%

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.

Treasury management limits on activity

4.17 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	2016/17	**2017/18**	**2018/19**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity structure of fixed interest rate borrowing 2015/16			
		Lower	**Upper**
Under 12 months		0%	30%
12 months to 2 years		0%	40%
2 years to 5 years		0%	40%
5 years to 10 years		0%	50%
10 years and above		25%	100%

Investment treasury indicator and limit

4.18 Total principal funds invested for 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.

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£40m	£40m	£40m

Ethical Investment Policy

4.19 The Ethical Investment Policy was approved by Cabinet on the 15th December 2011. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

Investment Risk Benchmarking

4.20 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

4.21 Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.00% (AAA rated) to 0.06% (A rated) historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £1m.
- Liquid short term deposits of at least £40m available with a week's notice.
- Weighted average life benchmark is expected to be a minimum of a day with a maximum of 1 year.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.06%**	**0.20%**	**0.37%**	**0.58%**	**0.81%**

This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

Annexes

Annex 1 - Treasury Management Policy Statement

Annex 2 – Economic Background

Annex 3 – TMP1 Credit and Counterparty risk management

Annex 1

Treasury Management Policy Statement

1. The Council defines its treasury management activities as follows:

   The management of the Council'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 Council, 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.

4. The Council's high level policies for borrowing and investments are:

   - The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt

   - The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Annex 2

APPENDIX: Economic Background

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. 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 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was 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. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. 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. There is considerable uncertainty around how quickly 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 Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the Fed as anticipated made its first bank rate rise in December following recent strong nonfarm payroll growth along with the concerns on the international scene having subsided.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Annex 3

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime*.*

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Service Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

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

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

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement (Appendix B).

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

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society. For this category this covers bodies with a minimum short term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is set out below:-

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 higher quality	*AAA*	£40m	5 Years
Banks 1 medium quality	*AA-*	£20m	3 Years
Banks 1 lower quality	*A-*	£10m	1 Year
Banks 2 – part nationalised	N/A	£10m	1 Year
Limit 3 category – Council's banker (not meeting Banks 1/2)	-	£100k	Liquid
Other institutions limit*	-	£30m	1 Year
DMADF	AAA	unlimited	5 Years
Local authorities	-	£40m	5 Years
Money market funds (Including Enhanced MMF)	AAA	£40m	liquid

**The Other Institution Limit will be for Gilt and Supranational investments*

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments is limited to an overall exposure of £40m and would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).	AAA long term ratings £40m

	(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£40m
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Minimal
d.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£40m
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to: • Parent company guarantee • Parent company to be a UK institution.	£10m
f.	**Share capital or Loan Capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. There is a higher risk of loss with these types of instruments.	£10m
g.	**Bond funds** – There is a high risk of loss with this type of instrument.	£10m
h.	**Pooled property funds** – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund. The authority are planning to invest £5m in a Property Fund (Cabinet 3rd November 2015) to support Homelessness in	£30m

	Bristol.	

In respect of category f and g, these will only be considered after obtaining external advice and subsequent member approval.

Council owned companies
The Council has purchased share capital and the provided loans to Council owned Companies, summarised below.

Bristol Energy Company, share Capital - £3.9m.
Bristol Waste Company – Loan Capital -£600k (Repaid).

These are classified as being service investment's, rather than treasury management investment's, and are therefore outside the specified / non specified categories.

Local Authority Mortgage Scheme.
Under this scheme the Council is required to place funds with Lloyds Bank Plc (£2m) and Leeds Building Society (£1m) for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified categories.

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

Appendix 2

Treasury Management Policy Statement

1. The Council defines its treasury management activities as follows:

   The management of the Council'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 Council, 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.

4. The Council's high level policies for borrowing and investments are:

   - The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

   - The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 3

TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

Treasury Management Practices

Index

TMP1 - Risk Management

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability 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 in the schedule to this document.

1. Credit and counterpart risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the schedule to this document. The Council 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.

2. 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.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

3. Interest rate risk management

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 amount provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy

4. 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.

5. 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 money 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 Council as can reasonably be achieved in the light of market conditions prevailing at the time.

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

6. 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 legislative or regulatory charges may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

7. Fraud, error and corruption, and contingency management

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

8. 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 - Performance measurement

The Council is committed to the pursuit of 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 support of the Council'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 or 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 demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 - Approved instruments, methods and techniques

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

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of 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 principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 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 Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

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

The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule to this document. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMP's and, if a CIPFA member, the Standard of Professional Practice in 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 transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMP's.

The Audit Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

Relevant reports will include the treasury management indicators as detailed in the guidance notes.

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

TMP7 - Budgeting, accounting and audit arrangements

The Section 151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or 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 the Council's budget will take will be specified by the Section 151 Officer from time to time. The Section 151 officer will exercise 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.

TMP8 - Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance 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 subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 - Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will 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 Section 151 Officer will recommend and implement the necessary arrangements.

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

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

The present arrangements are detailed in the schedule to this document.

TMP11 - Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be 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 a 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 a 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 formal tender or retender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule to this document.

TMP12 - Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principals 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 treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES

Part 2: Supporting Schedules

Contents

1 TMP1 Schedule 1 - Risk Management

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 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.

The City Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Credit counterparty policies:

- The Section 151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors

- The Council will use credit rating criteria as the main means of assessing and selecting creditworthiness of counterparties for placing investments with:

    - Credit ratings will be used as supplied from all three rating agencies - Fitch, Moody's and Standard & Poors
    - The Council uses the lowest common denominator approach which uses the lowest minimum acceptable credit rating from any of the three agencies, as set out below.
    - Current counterparty criteria can be found in the Annual Investment Strategy agreed by Full Council each year.

- Maximum maturity periods and amounts to be placed in different types of investment instrument will be set out within annual investment strategy approved by Full Council each year.

- Credit ratings for individual counterparties can change at any time. The Section 151 officer is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add (subject to S.151 approval) or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

- The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings we will use other sources of information including:-

    - The quality financial press
    - Market data, including credit default swaps. A credit default swap overlay will be used as a further safeguard to give early warning of potential creditworthiness problems which may lead to actual changes in credit ratings
    - Information on government support for banks and
    - The credit ratings of that government support

- The Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. The Annual Investment Strategy will set out:

    - Maximum amounts to be placed with any one institution
    - Group limits – The Council does not set a maximum level of investment with any one group of counterparties. However, in light of the current financial and economic climate, group limits will be kept under review.
    - Sector limits (e.g. building societies)
        - The maximum percentage of the portfolio, which may be invested in the banking and building society sector, is not limited but is controlled via the approved counterparty list.
        - Money Market Funds – is controlled via the approved counterparty limit.
        - Country limits - a minimum sovereign rating of AA is required for an institution to be placed on our approved lending list. A list of countries which currently meet this criteria are held in Corporate Finance.

- Treasury advisors will construct a lending list comprising maturity periods, type, group, sector, country and limits based on the Councils approved Annual Investment Strategy.

- Credit ratings for individual counterparties can change at any time. Treasury Management Advisors will provide regular updates of changes to all ratings relevant to the Council. The Section 151 Officer is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

- Investments will not be made with 'non-public bodies' that do not have a credit rating in their own right.

- Where there is reason to believe that a counterparty's credit standing is or may become impaired then lower limits may be applied than set out in the Strategy.

Operationally the Section 151 Officer may take measures to restrict (but not extend) the criteria approved in the Annual Investment Strategy.

- Treasury management meeting at Core Cities and regional levels. The Council will also utilise the knowledge and experiences of neighbouring Local Authorities as well as the use of Core Cities Treasury Management Group forum to discuss and exchange ideas and techniques in order to minimise treasury management risks.

    - Core Cities meet quarterly and the meetings are hosted around the country. Members include Birmingham, Leeds, Liverpool, Newcastle Nottingham, Manchester and Sheffield.
    - Regional Ex-Avon Treasury Management Group meetings take place two- three times per year and are held locally. Members include BANES, South Gloucestershire and North Somerset local authorities.

1.2 Liquidity Risk Management

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

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.

- 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.

- Approved sources of short-term borrowing are:

    - Standby facilities - the minimum daily cash balance for the group balance should not exceed +/- £100,000 (any variations from this benchmark are documented)
    - Bank overdraft arrangements - a £500k overdraft and arrangements above this at 1% over base rate has been agreed as part of the banking services contract.
    - Short-term borrowing facilities - the Council accesses temporary loans through approved brokers on the London money market and our bankers.

- o 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.
- o Special payments – The Treasury Manager Team are required to be given advance notice (24 hours) for all special payments.

1.3 Interest Rate Risk Management

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

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 amount provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

- Treasury management strategies are prepared in consultation with treasury advisors to take account of interest rate forecasts (see TMP6). Trigger points for managing changes to interest rate levels are included within the Strategy where appropriate

- The Council sets prudential indicators that provide the operational boundaries to the Council's exposure to interest rate risk. These indicators relate to upper limits on fixed interest rate and variable rate exposures. The indicators are reviewed at least annually and approved by Full Council within the Treasury Management Strategy Report. Compliance is monitored by the Treasury Manager.

- The principal factor governing the exposure of surplus funds to interest rate movements is the Authority's liquidity forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited short-term for periods, which will ensure that funds are available when required. Where surplus funds are expected to be available for investment for longer periods the Financial Strategy will give guidance on interest rate exposure policy and maturity profile. Where surplus funds are to be used to repay borrowings on maturity, the maturity for which the funds are deposited should match as closely as possible the maturity of the related borrowings.

- Policies concerning the use of financial derivatives and other instruments for interest rate management:

    - forward dealing - consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing takes the period of the loan deed beyond 18 months then the approval of the Section 151 Officer is required.

    - callable deposits - the Council will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of specified and non-specified investments appended to the Strategy.

    - Lenders option/borrowers option (LOBO) - consideration will be given to their use dependent upon the Council's existing exposure, interest rate environment and comparative forms of finance from elsewhere. Due to the complexity of the instrument advice will be sought from the Treasury Advisors and the Section 151 Officer must approve any proposal.

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.

- As a result of the nature of the business, the authority 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.

- 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, with professional advice, to comply with this strategy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the authority has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will 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 those 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 money 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 Council as can reasonably be achieved in the light of market conditions prevailing at the time.

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

- The Council will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review and reported annually as part of the Annual Treasury Management Strategy. The Prudential Code requires as a specific treasury management indicator, upper and lower limits for the maturity structure of the Council's debt.

- The opportunities for debt rescheduling will be kept under review in consultation with the Council's treasury advisors. 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:
    - the generation of cash savings at minimum risk;
    - to reduce the average interest rate;
    - to amend the maturity profile and /or the balance of volatility of the debt portfolio.

- Rescheduling will be reported to members as part of the standard reporting cycle (TMP6).

- The Section 151 Officer will prepare as a minimum a three year plan for capital expenditure for the Council. The capital plan will be used as a basis for estimating the capital financing requirement and a three year revenue budget for loan charges consisting if principal repayments, interest and expenses as well as loan repayments and forecast interest rates.

- The Council sets affordable limits for borrowing to inform the capital investment plans. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this three year period.

- PFI, Partnerships and guarantees - set out below are the PFI, partnerships and guarantee arrangements that the Council have entered into. Within these contracts there are no opportunities for refinancing.
  - Schools PFI – Phase 1 A – 05/06 – 30/31
  - Schools PFI – BSF – 07/08 – 32/33
  - Leisure Centre PFI – Hengrove Park – 11/12 – 36/37

1.6 Legal and Regulatory Risk Management

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

- The Council will prepare, adopt and maintain as the cornerstone for effective treasury management:

  - A Treasury Management Policy Statement (TMPS), stating the overriding principles and objectives of its treasury management activities and, as an integral part of the Statement
  - Treasury Management Practices (TMP's), setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities

- The Local Government Act 2003 gives local authorities the power to borrow (Section 1) and Invest (Section 12) for 'any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs'.

- The scheme of delegation of treasury management activities is contained in TM5 (external report) which states which officers carry out these duties and which officers are the authorised signatories.

- Lending shall only be made to counterparties on the authorised list. This list has been compiled from advice from the Council's Treasury Advisers.

- The Section 151 Officer duties include ensuring that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

- The monitoring officer is the Service Director – Legal; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

- The Section 151 Officer shall take appropriate action with the Monitoring Officer, City Director and Mayor where appropriate to respond to and manage political risks.

- Relevant statutes and regulations:

- Local Government Act 2003
- Localism Act 2011
- Local Government Finance Act 1992 (s.32) - requirement to set a balanced budget
- Local Government Finance Act 1988 (s.114) – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Local Government and Housing Act 1989 (s.74(1)) Definition of HRA capital expenditure
- Local Government and Public Involvement in Health Act 2007 (s238(2)) – power to issue guidance, e.g. Minimum Revenue Provision (MRP)
- 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
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004
- S.I. 2006 No. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- S.I. 2008 no. 414 (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- 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

- Statutory guidance:

  - CIPFA Treasury Management Code of Practice and Guidance Notes 2011
  - CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
  - CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
  - CLG Guidance on Investments (Revised April 2010)

- Other regulatory codes/guidance:

  - CIPFA Standard of Professional Practice on continuous professional development 2005

- CIPFA Standard of Professional Practice on ethics 2006
  - LAAP Bulletins
  - 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
  - Allocation of financing costs to the HRA (housing authorities) – annual determination
  - CLG Document " Implementing self-financing for council housing" – 1 Feb 2011

- Corporate Governance (see TMP12):

  - The Council's Financial Regulations
  - The Council's Standing Orders relating to contracts
  - The Council's Scheme of Delegated Functions

1.7 Fraud, error and corruption, and contingency management

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

The Council has published an "Anti-Fraud and Corruption Strategy and Fraud Response Plan" which, along with the "Whistleblowing Policy" provides officers; members and other interested parties clear guidance in respect to the procedures to be followed where an individual or company is suspected of committing fraud. These policies can be found on the Bristol City Council's intranet website at the following location:

http://intranet.bcc.lan/ccm/navigation/policy-and-procedures/internal-audit/fraud
A Money Laundering Reporting Officer has been appointed and training provided to officers on the requirements of the money laundering legislation. As at 24 February 2014 the Money Laundering Reporting Officers are Alison Mullis and Melanie Henchie-McCarthy, Chief Internal Auditor.

The Council will therefore:-

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

  - Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
  - Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

- TMP5 and TMP6 and supporting schedules set out the Council's arrangements for clarity of organisation, reporting arrangements and management information systems and controls

- TMP3 and TMP7 and supporting schedules set out the decision making arrangements and the maintenance of an audit trail for treasury management decisions and transactions.

- Details of systems and procedures to be followed:

  Authority

  - The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments are negotiated by authorised persons.

  Procedures

  Investment and Borrowing transactions

  - A detailed register of all loans and investments is maintained within the internal systems and on an external web based treasury management system (TreasuryNet).

  - Cash flow forecasting records are maintained within the treasury management arrangements to support decisions to lend or borrow

  - A written acknowledgement is sent promptly to the lending or borrowing institution where deals are transacted directly.

  - Written confirmation is received and checked against the dealer's records for the transaction.

  - All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction.

  - Discrepancies are immediately reported to the Principal Accountant (Treasury) for resolution with the other party.

Completeness

- The loans register (TreasuryNet) is updated to record all lending and borrowing. This is confirmed to the authorities general ledger.

Regularity and security

- Lending is only made to institutions on the approved list of counterparties
- All loans raised and repayments made go directly to and from the bank account of approved counterparties
- Authorised limits are set for every institution that the Council invest with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury operations team is an authorised signatory.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.
- The Council internal and external system TreasuryNet prompts that monies borrowed or lent are due to be repaid.
- The electronic banking system has the "seven step" security process
- There is a separation of duties between the electronic processing of a payment and its checking and authorisation
- Electronic payments can only be authorised by an authorised signatory and countersigned by an officer with appropriate knowledge and experience
- Internal Audit carry out an annual regulatory review of the treasury management function

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The control totals on the "TreasuryNet" system are proved to the balance sheet ledger codes monthly and at financial year end and counterparty statements.

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 internal and external Treasury systems.

- o The internal and external systems automatically calculate periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.
- o Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledger and the internal Treasury system.
- o These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund and the Housing Revenue Account recharge

- Emergency and contingency planning arrangements including disaster recovery plan.
    - o All members of the treasury management team are familiar with this plan and new members will be briefed on it.
    - o All computer files are backed up on the server to enable files to be accessed from remote sites
    - o Balances can be obtained over the telephone system
    - o CHAPS payment can be given by instruction in person/phone

- The Council has ‘fidelity’ insurance cover. This covers the loss of cash by fraud or dishonesty of employees. This cover is limited to £20m for any one event with an excess of £10k for any one event. A copy of the latest schedule is contained in Corporate Finance.

- Emergency and contingency arrangements are set out with the daily procedures, a copy of which can be obtained from Corporate Finance.

1.8 Market Risk Management

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

- Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, Certificates of Deposit etc.). These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

2 SCHEDULE 2 - TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

- The Treasury Manager will produce regular reviews to the treasury management team, no less that on a quarterly basis.
- reviews with our treasury management advisors
- annual review after the end of the year as reported to full Council
- mid-year review as reported to full Council
- quarterly monitoring reports to Audit Committee

2.1.1 Periodic reviews during the financial year

The Treasury Manager (Principal Accountant) holds a treasury management review meeting with the treasury management team every month including the S.151 officer (no less than once a quarter) to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants no less than twice a year to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

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

- total debt and investments at the beginning and close of the financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanations for variance between original strategies and actual
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential and Treasury Indicators

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- Core Cities

- Local Unitary Authorities

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

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

2.2.2 Investment.

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

a. in house investments - 7 day LIBID
b. cash fund manager - 7 day LIBID

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

The Council consider the following when measuring performance: -

- Weighted average rate of return
- Weighted average maturity
- Weighted average credit risk

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

2.3.1 Frequency and processes for tendering

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

2.3.2 Banking services

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

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

2.3.3 Money-broking services

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

No commission is paid to brokers on these money market deals. A sum of 0.1 % commission is currently paid on all deposit loans (borrowing) taken by the Authority's brokers. Additional charges or an increase in the commission will be fully costed to measure the impact on the services prior to agreement.

The Treasury Management Group (TMG) will review the brokerage service on an ongoing basis (frequency based on usage). At the 26th January 2012 Treasury Management Group meeting it was agreed that the Council would continue to use the following money market brokers.

- Tullet Prebon
- RP Martin Brokers
- Tradition (UK) Limited

A combination of quantitative and qualitative indicators will be used to assess broker performance. The key performance indicators that will be used are:

- Regular contact with the Treasury Management Team. Frequency of contact set by the Treasury Manager.
- The number of deals booked per annum
- Achieving the target rate or better as set by the Treasury Management Team for all deals (lending and borrowing)
- The number of products promoted that would enable the Council to achieve its Treasury Management Strategy
- Maintaining commission charges at a satisfactory level (see below)
- Behave in a professional manner and not to be forceful when promoting products
- Maintaining a professional relationship with the Council and not to behave a manner that will bring the relationship into disrepute or other conflicts of interest

2.3.4 Consultants'/advisers' services

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

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

If in the future the Council wishes to appoint External Fund Managers, the Council's policy will be to appoint full-time professional cash/external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

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

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

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Capita Asset services to assist in this respect as part Treasury advisory contract.

2.3.6 Other Provider's Services

Treasurynet – This Internet based treasury management system administers all Loans Out (Fixed and Notice Deposit), Market Loans, PWLB Loans, Temporary Deposit Loans and Notice Loans. The system also produces deal confirmation letters, counterparty lists and daily outstanding transaction reports.

Financial Times – A digital subscription providing comprehensive financial coverage providing a further resource to aid the Treasury operations of the authority.

TMP 3 DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

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

- Daily cash balance forecasts
- Money market rates obtained
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and borrowing transactions
- Internal - authorities / Confirmations –
  - New Long term borrowing and Investments (beyond 364 day) internal application signed by Chief Financial Officer
  - New Investments / Short term debt (less than 364 day) confirmations by Treasury Manager
- Confirmations from borrowing /lending institutions where deals are done directly, including agreements
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- A copy of reference rates at the time of undertaking the transaction.
- Contract notes received from fund manager(s) (if applicable)
- Approved Signatory lists
- Fund manager(s) valuation statements (if applicable)

The officers and authorising limits to transfer funds are set out in the approved signatory list, held within Corporate Finance. This signatory list sets out the framework to make amendment to counterparty Treasury instructuions.

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis and update
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).
- Monitor of interest rates and interest rate forecasts.
- Ensure Borrowing is in accordance with Treasury Management Strategy including Prudential Indicators. To review clauses and negotiate with bank if not satisfactory – standard loan documentation is held in Corporate Finance.
- Set interest targets for broker to achieve including timeframe and negotiate commission payable.

- Review and amend loan document
- Debt documents to be updated – S:\CF\Treasury Management\Debt\Interest-XXXX.xls
- Investment documents to be updated – S:\CF\Treasury Management\Dealing\Cash-XXXX.xls
-

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 fund
c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

3.1.3.3 In respect of investment decisions, the Council will:

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

4 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;
- the use of external fund managers (other than Pension Fund)
- leasing.
- Managing the underlying exchange rate risk associated with the Organisation's business activities.

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy approved annually.

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003), and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

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

4.6 Borrowing Limits
See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

5 TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

The Bristol City Council Constitution (schedule 3) details the delegation powers of Executive functions to Officers. The officer designated as the Chief Finance Officer (and his team under his direction) is empowered to do all things necessary in the performance of financial services.

5.1.1 Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy including prudential indicators.

5.1.2 Cabinet

- budget consideration and approval
- receiving and reviewing regular monitoring reports and acting on recommendations

5.1.3 Audit committee with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to Cabinet.
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices

5.1.4 Chief Financial Officer

- approving the selection of external service providers and agreeing terms of appointment.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The varied aspects of treasury management and the large volume of funds involved call for a clear segregation of duties, which must be reflected in the allocation of responsibilities. Bristol City council operates a relatively small treasury management team, which is reviewed annually by internal audit and our external auditors.

There is a separation of duties involving decisions between:

- Policy formulation
- Dealing in the market
- Recording and administration.

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary.

	Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Production of transfer note Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment

5.3 Treasury Management Organisation Chart

Service Director: Finance / Chief Financial Officer (S.151)
Treasury Management Group

Head of Corporate Finance
Treasury Management Group

Finance Manager (Budgeting and Internal Reporting)
Treasury Management Group

Principal Accountant - Treasury Manager
Treasury Management Group & Treasury Operations Team

Accountant – Treasury Dealer
Treasury Operations Team

5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1 Chief Financial Officer (The responsible Officer)

The Bristol City Council Constitution (schedule 3) details the delegation powers of Executive functions to Officers. The officer designated as the chief finance officer (and his team under his direction) is empowered to do all things necessary in the performance of financial services including the professional responsibility for the treasury management function of the Council. This person will carry out the following duties: -

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting regular treasury management policy reports
c) submitting budgets and budget variations
d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.

i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer has delegated his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Accountant and Accountants must conduct all dealing transactions,

or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

k) The responsible officer and monitoring officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

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

m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2 Head of Corporate Finance

The responsibilities of this post will be: -

a) To deputise for S.151 officer

5.4.3 Finance Manager (Budgeting and Internal Reporting)

The responsibilities of this post will be: -

a) Oversee Treasury function

5.4.4 Treasury Manager / Principal Accountant

The responsibilities of this post will be: -

a) Oversee / execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) supervising treasury management staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending opportunities for improved practices

5.4.5 Accountant – Treasury Dealer

The responsibilities of this post will be:-

a) Execution of transactions
b) Maintain cashflow model
c) Calculate daily cashflow requirement
d) Maintain Treasurynet system
e) Ensure that all necessary authorisations have been obtained
f) Identifying and recommending opportunities for improving practices.

5.4.6 The Head of the Paid Service – City Director

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly to the full Council, Cabinet and scrutiny committee on treasury policy, activity and performance.

5.4.7 The Monitoring Officer – Service Director of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.8 Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

The Officer to carry out the day-to-day Treasury Management function is the Accountant, Corporate Finance. In the absence of this post holder any of the following staff are available to cover the daily workload.

a) Treasury Manager / Principal Accountant
b) Accountant - Budgeting and Internal Reporting (limited role)
c) Senior Accountant - Budgeting and Internal Reporting (limited role)
d) Principal Accountant – Schools Finance (limited role)
e) Principal Accountant – Neighbourhoods Finance (limited role)

The limited role will require identifying the cashflow position and transferring funds to and from call accounts or money market funds to ensure resources are maximised on a temporary basis. The role does not include lending or borrowing activity within the money markets or raise loans through the PWLB or market. Officers within this limited role are expected to carry out this task once every six weeks to maintain adequate knowledge and skills should the need arise for cover.

5.6 Dealing Limits

There are no dealing limits for individual posts. Note Treasury Management Counterparty List sets out an acceptable amount to be lent to individual financial institutions based on a risk matrix. The Counterparty list is based on information from our independent financial advisors (including real-time rating changes and any amendments required to reflect internal agreed changes. Ie restring lending to Non Uk Financial Institutions. Treasury transactions must comply with the Treasury Strategy and Treasury Management Practice Statements (TMPS), this document.

5.7 List of Approved Brokers

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

a) Tullet Prebon
b) RP Martin
c) Tradition

5.8 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers. Reviews are carried out on an annual basis or as and when required as currently the use of brokers is small.

5.9 Policy on Taping of Conversations

It is this Council's policy not to tape brokers conversations, and Treasury transactions with other parties.

5.10 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.
- Lloyds (including Bank of Scotland
- RBS (including NatWest)

5.11 Settlement Transmission Procedures

A formal letter signed by two personnel from an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. The agreed cheque will need to be in accordance with the General Fund Bank Mandate held by Corporate Finance.

For electronic payments a transfer will be made through the NatWest bankline system to be completed by 3.30pm (domestic) 2.30pm (overseas) on the same day.

The maximum value of CHAPS payments per limits agreed with NatWest is £25 million per day. If this is exceeded, authorisation must be obtained from the Authority's relationship manager.

5.12 Documentation Requirements

For each deal undertaken a record will be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker. Details are contained in daily dealing procedure notes held in Corporate Finance.

5.13 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the benchmark reference rate (7 day LIBID) for internal balances for the year.

The authority also holds deposit for bodies where the authority has an interest. The interest rate applied to these funds is based on the Bank Base Rate (less a fixed rate of 0.5%) and any amendments to the rate payable must be notified to and agreed by the third party. An exception to this is when the Bank Base Rate is 0.5% in which case the rate payable will be Bank Base Rate less 0.25%.

5.14 Bankline arrangements

Natwest bank provide a real-time banking system, "Bankline" to allow the Council to carry out its Treasury activities securely, quickly and remotely.

Roles, limits and procedures have been set up to ensure personnel have correct access and that there is segregation of duties for specific processes. Corporate Finance hold these arrangements.

6 TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual Programme of Reporting

a) Annual reporting requirements before the start of the year: -
   a. review of the organisation's approved clauses, treasury management policy statement and practices
   b. strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

b) Mid-year review

c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

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

6.2.2 The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

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

a) Prudential and Treasury Indicators
b) current Treasury portfolio position
c) borrowing requirement
d) prospects for interest rates
e) borrowing strategy
f) policy on borrowing in advance of need
g) debt rescheduling
h) investment strategy
i) creditworthiness policy
j) policy on the use of external service providers
k) any extraordinary treasury issue
l) the MRP strategy

6.2.4 The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

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

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

6.4 The Annual Minimum Revenue Provision Statement

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

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

6.6 Mid-year review

The Council will review its treasury management activities and strategy on no less than a half yearly 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 Review Report on Treasury Management Activity

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

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

6.8 Management Information Reports

Management information reports will be prepared for the Treasury Management Group.

These reports will contain the following information: -

a) a summary of transactions executed (may want to add brokers used and fees paid) and their revenue (current effects);
b) measurements of performance including effect on loan charges/investment income;
c) degree of compliance with original strategy and explanation of variances.
d) any noncompliance with Prudential limits or other treasury management limits.
e) Capital Financing budget position

6.9 Treasury Management Group (TMG)

The TMG is made up of officers from the Corporate Finance section and the Chief Financial Officer. The group meet regularly (monthly, no less than quarterly) to discuss Treasury Management issues, review specific tasks and assess performance. Minutes of the meetings are held in the Corporate Finance section.

6.10 Publication of Treasury Management Reports

The following reports will be made available to the public by the council website.

- Annual Treasury Management Strategy, including Minimum Revenue Provision Statement and Prudential Indicators
- Mid-year review
- Annual review

7 TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

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

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The section 151 officer (Chief Financial Officer) will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The section 151 officer will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the TreasuryNet and Public Works Loan Board
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values, where applicable.
- Financial Instruments Disclosure Notes and working papers.
- Additional evidencing – ie documentation following debt rescheduling.

7.4 Quarterly Budget Monitoring Report

Quarterly Budget Monitoring reports are produced for the Head of Corporate Finance, and a quarterly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

8 TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

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

Cashflow forecasts for current and future 3 years are held in S:\CF\Treasury Management\ Dealing\CashYYYY.xls

A manual copy of the cash flow forecast is also maintained by the Accountant and the Principal Accountant to ensure service is not disrupted if the other systems fail (as part of emergency arrangements)

The sources of information are held in the cashflow forecast.

8.2 Bank Statements Procedures

Treasury Management transactions are processed through the Loans Fund bank account and are checked to the source data. The Council receives bank statements and a daily download of data from its bank with formal reconciliation undertaken on a quarterly basis by personnel within the Corporate Finance Team. Transactions are posted to the ledger via a member of the team not involved in Treasury transactions.

The remaining bank accounts, the Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal reconciliation is undertaken on a daily basis by systems team.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors are also within 30 days, unless other contractual terms have been agreed.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Head of Corporate Finance is responsible for monitoring the levels of debtors and creditors. Commonly, the levels are based on a historic basis for cashflow models but on an periodic basis the Treasury team request details to assist in assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers (Operational Finance) to deposit in the Council's banking accounts. The cashiers (Operational Finance) will not notify the treasury manager each morning of cash and cheques banked the previous day as these are not material. For cashflow purposes daily cash income is assumed at £100k and is monitored on a daily basis.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has approved financial regulations and this item is dealt with in the key controls for payment to creditors.

8.7 Policy on Charging for Late Repayment for Treasury receipts and Payments

In the event of late repayment of a Treasury transaction a late payment charge of base rate + 1% will be payable on the full amount outstanding (i.e. Principal and Interest).

8.8 Procedure for "one off" same day payments (CHAPS / Faster)

All departments when requesting a "same day" payment will be required to complete a payment request proforma. These forms can be found at S/CF/TreasuryManagement/Dealing/Chaps payment form.doc (UK) or for Foreign payments, Foreign request Payments.doc and will be emailed to departments upon request. All forms will need to be completed and signed off by the budget holder and countersigned by the appropriate Finance Officer, taking account of the authorities' scheme of delegations. Departments will be required to forward their forms along with invoices as evidence.

Departments are required to give Capital Finance at least 48 hours' notice for any same day payments request as this may have cashflow implications.

Corporate Finance will reject any payment requests if the forms have not been completed correctly or signed off by the correct officer.

Low value payments (below £1000) including foreign payments that have been requested to be paid by electronic means will need to be rejected and departments will need to be advised to pay the outstanding amount by the corporate credit as long as this payment method is available to avoid wasting officer time.

The manual file will need to be reviewed by the VAT accountant for VAT purposes for UK and foreign currency transactions to ensure VAT input tax is recovered.

9 TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is the Chief Internal Auditor.
f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Chief Internal Auditor and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

It is no longer Council policy to accept loans from individuals although it did in the past *(local bonds were abolished by the Authority in 1996 – these have a small, immaterial residue of loans still on its books)*

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fsa.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

Before accepting loans from individuals, the Council will confirm the identity of the lender, including any sums held on behalf of trustees.

9.6 Methodologies for Identifying Deposit Takers

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

All transactions will be carried out by CHAPS (or most efficient electronic process) for making deposits or repaying loans.

10 TMP 10 Training and Qualifications

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

a) Treasury management staff employed by the Council
b) Members charged with governance of the treasury management function

All treasury management staff will receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system (PMDS – Performance Management and Development System) which identifies the training requirements of individual members of staff engaged on treasury related activities. These are planned to be carried out twice yearly.

Additionally, training may also be provided on the job and it will be the responsibility of the Treasury Manager to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc and are encouraged further education where appropriate.

10.2 Records of Training Received by Treasury Staff

The treasury manager will maintain records on all staff and the training they receive.

10.3 Approved Qualifications for Treasury Staff

- Treasury Manager – Principal Accountant CCAB (preferably Cipfa qualified)
- Treasury Operations – Accountant AAT or by experience.

The members of the Treasury team within Corporate Finance have the following qualifications:

- Principal Accountant – Cipfa, ACT Cert ITM-PF
- Accountant - AAT

10.4 Record of Secondment of Senior Management

When appropriate, records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.5 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

In accordance with the CIPFA Treasury Management Code of Practice Members will be given adequate training in treasury management in order for them to have the knowledge to scrutinise the decisions undertaken by the Treasury Management Team.

Members will be offered to attend the free training sessions offered by the Council's treasury management advisors at their offices in London as part of the Advisors Contract.

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

The recent training sessions provided are:

- Audit Committee - April 2014
- Resources Scrutiny – February 2013
- Audit Committee – September 2012

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

11 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 an
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is the NatWest Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
c) The branch address is: Bristol City Office, PO Box No328, 32 Corn Street, Bristol, BS99 7UG
Tel :- 0345 711 4477
d) Contract commenced 1st April 2008 and runs for 5 years until 31st March 2013. This has been extended in accordance with procurement regulations until 1st October 2015, authorised by the S151 and monitoring officers.
e) Cost of service is variable depending on schedule of tariffs and volumes, estimated to be £100k per annum.
f) 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 approved brokers. The performance of brokers is reviewed by the Treasury Manager on an ongoing basis to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Treasury Management Group.

Broker .

- RP Martin — Email: Diane.Billington@Martin-Brokers.com
  Tel: +44 207 469 9580
  DDI: +44 207 469 9580
  Fax: +44 207 469 9250
  Web: www.uk-locals.com

- Tullet Prebon — Email: jhurley@tullettprebon.com
  Tel: 020 7200 7042
  Fax: 020 7200 7180

- Tradition UK Ltd — Email: richard.mourgue@tradion.com
  Tel: 020 7422 3871

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

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

The performance of consultants will be reviewed by the Treasury Manager on annual basis (more frequent if necessary) to check whether performance has met expectations.

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 adviser authorised by the FCA
c) Contract commenced 1st September 2014 for 3 years with an option for a further 2 years.

Leasing Consultancy Services

a) Not applicable.

External Fund Managers (if used)

a) Not applicable

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

11.1.4 Credit Rating Agency

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

11.1.5 Other Services

- TreasuryNet – Annual fee £3.6k excl VAT (paid by invoice semi-annually)
- Financial Times - £370 per annum for online access to financial data and financial tools

11.2 Procedures and Frequency for Tendering Services

See TMP2

12 TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all 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: -

   Treasury Management Policy Statement
   Treasury Management Strategy Statement
   Annual Investment Strategy
   Minimum Revenue provision policy statement
   Annual Treasury Review Report
   Treasury Management monitoring reports

   Annual accounts and financial instruments disclosure notes
   Annual budget
   3 Year Capital Plan

   Minutes of Council / Cabinet / committee meetings

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

Appendix A

Glossary

Affordable Capital Expenditure Limit
The amount that the Council can afford to allocate to capital expenditure in accordance with the requirements of the Local Government in Scotland Act 2003 and supporting regulations.

Authorised Limit for External Debt
This is a limit for total Council external debt as set by the Council based on debt levels and plans.

Bank of England
The central bank for the UK with ultimate responsibility for setting interest rates (which it does through the Monetary Policy Committee or “MPC”).

Base Rate
The interest rate for the UK as set each month by the Monetary Policy Committee (“MPC”) of the Bank of England.

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the annual Statement of Recommended Practice (SORP) and for which the Council are able to borrow.

Capital Financing Requirement
This is a Prudential Indicator that can be derived from the information in the Council’s Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy who produce guidance, codes of practice, and policy documents for Councils.

Counterparty
Another organisation involved in a deal i.e. if the Council enters a deal with a bank then the bank would be referred to as the “Counterparty”.

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment.
e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

European Central Bank
Sometimes referred to as “the ECB”, the European Central Bank is the central bank for the Eurozone and is the equivalent of the Bank of England. The European Central Bank sets interest rates for the Eurozone.

Eurozone
The name given to the countries in Europe that have the Euro as their currency. Interest rates in the Eurozone are set by the European Central Bank. The Eurozone is comprised of the following 12 countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

Fed Rate
The interest rate for the US. Rates for the US are set by the Federal Reserve (the central bank for the US and the equivalent of the Bank of England).

Federal Reserve
Sometimes referred to as “the Fed”, the Federal Reserve is the central bank for the US and is the equivalent of the Bank of England. The Federal Reserve sets interest rates for the US.

Fixed Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

Flat Yield Curve
A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

GDP
GDP or “Gross Domestic Product” is a measure of the output of goods and services from an economy.

Gilt Yields
A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

Gilts
Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on base rate expectations, and on market conditions.

Gross Domestic Product
Gross Domestic Product ("GDP") is a measure of the output of goods and services from an economy.

Incremental Impact of Capital Investment Decisions
These are Prudential Indicators that reflect the impact on Council Tax and Housing Rents of movements in projected and estimated capital expenditure within and between financial years.

Inverted Yield Curve
An inverted or negative yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Monetary Policy Committee
This is a committee of the Bank of England that meets each month (in a meeting over 2 days) to set the base rate for the UK.

MPC
The MPC or Monetary Policy Committee is a committee of the Bank of England that meets each month (in a meeting over 2 days) to set the base rate for the UK.

Negative Yield Curve
A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Net Borrowing Requirement
This is the difference between the Council's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

Operational Boundary
This is a level of debt set by the Council at lower than the Authorised Limit and which Council debt levels should not normally exceed during normal operations.

Positive Yield Curve
A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).

Prudential Code
Councils are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements include the production of Prudential Indicators.

Prudential Indicators
Indicators set-out in the Prudential Code that will help Councils to meet requirements in relation to borrowing limits or which will help Councils demonstrate affordability and prudence with regard to their prudential capital expenditure.

PWLB
The Public Works Loans Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies. Contact 0845 357 6610, ID 313-05038

PWLB Rates
The interest rates chargeable by the Public Works Loans Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the close of business on the preceding business day.

Repo Rate
This is another name for the base rate as set by the Monetary Policy Committee.

TMPs
The term “TMPs” is a reference to the Council’s Treasury Management Practices document that sets out Council policies and procedures for treasury management as required by the CIPFA “Treasury Management in the Public Services: Code of Practice”. The Council also agrees an annual treasury management strategy that is submitted to Committee in accordance with the TMPs.

Treasury Management in the Public Services: Code of Practice
This is a code of practice for Council treasury management activities that is produced by CIPFA.

Treasury Management Practices
This is a Council document that sets out Council policies and procedures for treasury management as required by the CIPFA “Treasury Management in the Public Services: Code of Practice”. The Council also agrees an annual treasury management strategy that is submitted to Committee in accordance with the Treasury Management Practices.

Variable Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments varies on an agreed basis.

WARoR
This is the average annualised rate of return weighted by the principal amount in each rate.

WAM
This is the average time, in days, till the portfolio matures, weighted by principal amount.

WA Tot. Time
This is the average time, in days, that deposits are lent out for, weighted by principal amount.

Yield
The yield is the effective rate of return on an investment.

Yield Curve
A graph showing the yield on investments plotted against the maturity period for investments:

- A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).
- A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).
- A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.