ANNEX 1

COUNCIL MEETING – 27TH JULY 2017

AGENDA ITEM NO. 6 (1)

TREASURY MANAGEMENT OPERATIONS 2016/17 & REVISIONS TO THE 2017/18 INDICATORS

A report from the meeting of Cabinet held on 27th June, 2017.

1 INTRODUCTION

1.1 Treasury management operations for 2016/17 are presented in accordance with strategic requirements. All treasury management activity during 2016/17 was carried out in accordance with the Annual Treasury Management Strategy and complied with the treasury and prudential indicators set out in that report, and with the Treasury Management Code of Practice. A review of the treasury management practices and schedules has also been carried out.

1.2 This report also details a requirement for an increase in the Councils' capital programme for the year 2017/18 in order to facilitate the potential for revenue gains for the current and future years. The increase in capital budget allocation is significant requiring approval for changes to the prudential indictors in relation to the treasury management strategy for 2017/18.

1.3 There are three core elements within this report:

(a) Presentation of the Treasury Management operations for 2016/17

(b) A review of the treasury management practices and schedules

(c) A proposal for an increase to the capital budget for 2017/18 requiring a revision to the prudential indicators for capital financing for 2017/18

2 TREASURY MANAGEMENT OPERATIONS FOR 2016/17

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

2.2 The Council has invested substantial sums of money and is therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This section of the report covers treasury activity and the associated monitoring and control of risk.

2.3 Full Council originally approved the Annual Treasury Management Strategy for 2016/17 on 23 February 2016. However, subsequent substantial capital budget additions were approved during the financial year 2016/17, mainly in relation to the acquisition of income yielding investment properties. These additional capital budgets approved for 2016/17 had a fundamental effect on the Council's prudential indicators and Full Council on 23 February 2017 approved revisions to the 2016/17 prudential indicators within the Annual Treasury Management Strategy for 2017/18.

2.4 Appendix A shows the actual prudential indicators relating to treasury activities and capital financing for 2016/17 and compares these to the indicators set in the Annual Treasury Management Strategy for the year 2016/17.

Treasury Management Advice

2.5 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2016/17. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.6 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose, and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.7 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.

2.8 The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2016/17, staff attended relevant workshops provided by Arlingclose and other service providers.

Economic Background

2.9 The Council's treasury management advisors have provided commentary on the economic background that prevailed during the year 2016/17. This commentary is provided at Appendix B.

Borrowing Activity in 2016/17

2.10 The Council commenced the financial year 2016/17 carrying £4.7m of borrowing obtained from the Enterprise M3 Local Enterprise Partnership

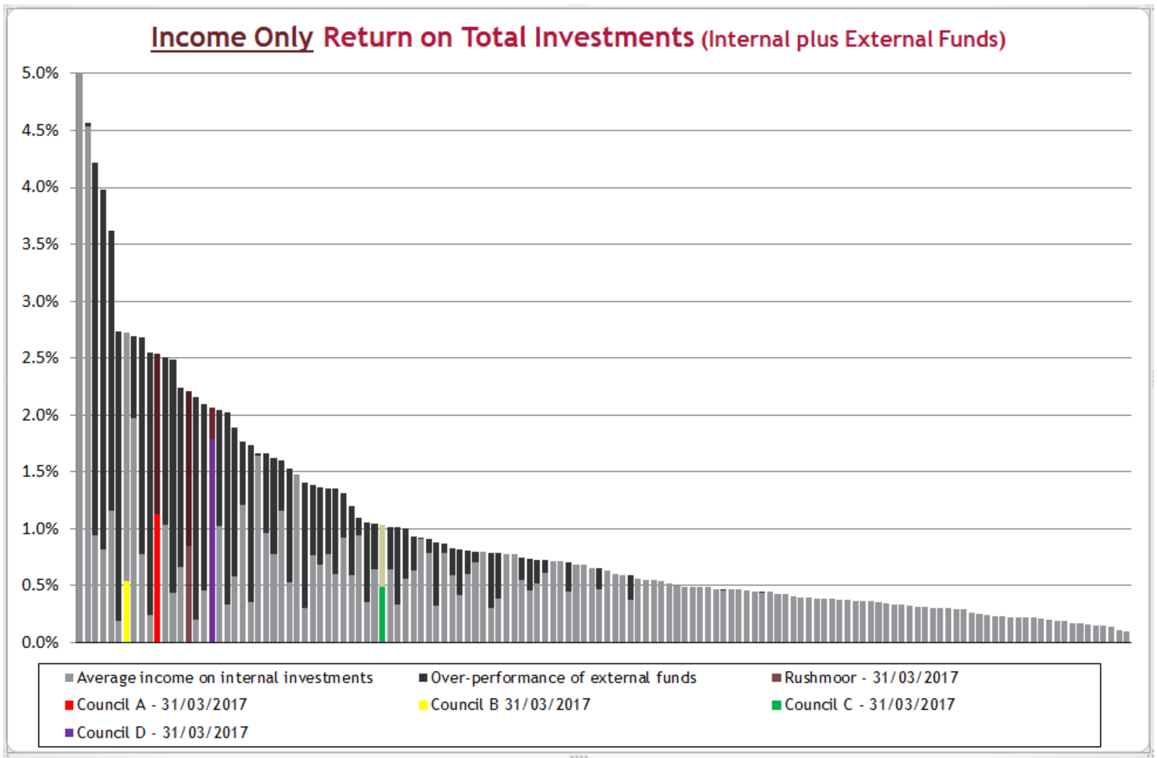
(EM3). This sum was advanced in order to assist the temporary financing of some specific capital projects.

2.11 During 2016/17, an amount of £1.7 million was repaid to EM3 as capital expenditure related to an element of the total amount borrowed was considered unlikely to proceed. In addition, a further £0.4 million was also repaid to EM3 in accordance with the pre-agreed repayment schedule. The Council raised an additional £12 million short-term borrowing towards the end of the financial year. The need for this additional borrowing was in relation to an approved in-year increase in capital expenditure. Total borrowing therefore amounted to £14.6 million at 31st March 2017.

Investment Activity in 2016/17

2.12 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The total income yield return on the Council's investments amounted to 2.2% for the financial year 2016/17 excluding capital gains and losses.

2.13 The following graph has been produced by Arlingclose and shows the Council's 2016/17 return on its total investment portfolio excluding capital gains and losses. The Council ranks well when benchmarked against their other local authority clients. Highlighted on the graph are four other non-metropolitan districts with a similar size portfolio to Rushmoor showing returns for two authorities marginally higher and two authorities lower (one of which is at or just below 1%):

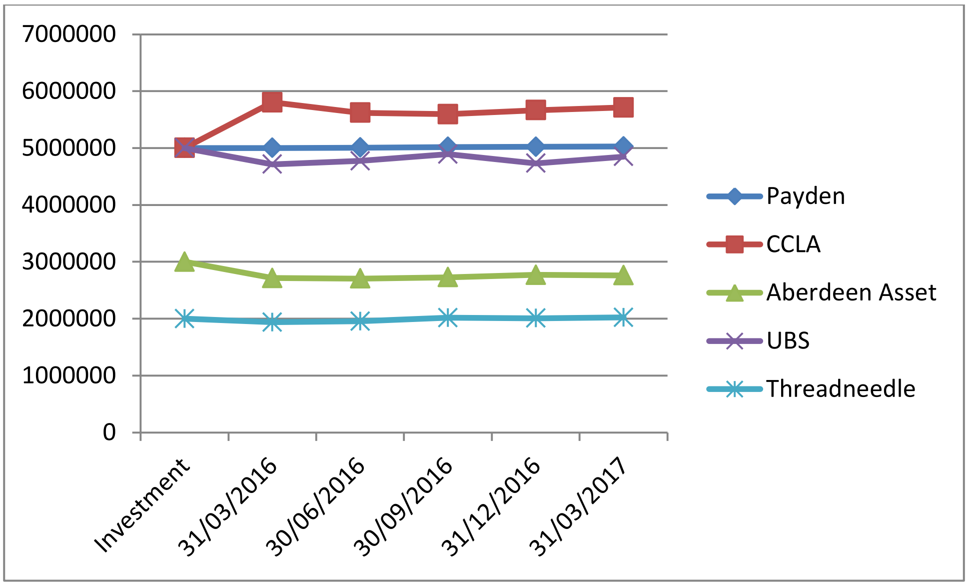


2.14 The rate of return has been calculated as (1) External pooled funds (income return for the past year, (2) Oher investments (effective rate of investments held at the end of the financial year. It should be noted that it is a "snapshot" of returns for the year. For 2016/17 the Council continued to use secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits. Details of the Council's investment activity together with returns generated during 2016/17 are outlined as follows:

2.15 **Pooled Funds** – the Council's pooled funds have continued to experience some variations in performance during the year 2016/17.

Pooled Funds Capital Growth/Losses – Aggregation of the Council's pooled funds resulted in an overall net increase in fair value for the year 2016/17 of around £274,000, although this net increase is relatively modest compared to the overall investment sum (an aggregate increase of 1.4%). The significant exceptions within this group are CCLA showing exceptional growth of 14% since acquisition, but offset by a capital reductions for the UBS Multi Asset Fund which has declined by 3% since acquisition and Aberdeen which has declined by 7% since acquisition. This group of investments are long term (3-5 year window) and monitoring of the capital value continues to be made on a monthly basis.

Movement in capital value of pooled funds during 2016/17



Pooled Fund Income Returns – The income returned by fund for the period to 31st March 2017 is analysed below:

- Payden & Rygel's Sterling Reserve Fund - £5 million investment. The Fund seeks to provide capital security, liquidity and income through investment in Sterling denominated investment-grade debt securities. The fund's performance for the 12 months to 31st March 2017 is 0.84% income return.

- CCLA's Local Authorities' Mutual Investment Trust - £5 million investment. The Property Fund is designed to achieve long term capital growth and income from investments in the commercial property sector. The Council's total investment in this UK property fund is £5 million. The fund has returned 4.86% income during 2016/17.

- Aberdeen Absolute Return Bond Fund - £3 million investment. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. The fund's performance for 2016/17 is a 2.23% income return.

- UBS Multi-Asset Income Fund - £5 million investment. This Fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has generated a 3.72% income return for the year.

- Threadneedle Strategic Bond Fund - £2 million investment. . The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has generated a 4.32% income return during the period to 31st March 2017

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2.16 **Bonds** - debt instruments in which an investor lends money for a specified period of time at a fixed rate of interest. **Covered bonds** are conventional bonds that are backed by a separate group of loans (usually prime residential mortgages). When the covered bond is issued, it is over collateralised, with the pool of assets being greater than the value of the bond. During the year a number of covered bonds were redeemed. The Council invested in one additional covered bond (detail provided as follows):

- £1 million Lloyds Bank at a fixed rate of 1.05% Bond

2.17 **Other Investments** – During the year a number of other investments matured and were redeemed and the Council made no new investments:

2.18 The following table summarises deposit/investment activity during the year to 31st March 2017. Overall, there was a net decrease of £5.3m invested during the period.

Investment Counterparty	*Balance on 31/03/16 £m*	*Investments Made £m*	*Maturities/ Investments Sold £m*	*Balance on 31/03/17 £m*	*Avg Rate % and Avg Life (yrs)*
UK Local Authorities	*2.0*	*-*	*-*	*2.0*	*1.0% - 2 years*
UK Banks and Building Societies: *Short-term* *Long-term*	 *3.0* *-*	 *-* *-*	 *(3.0)* *-*	 *-* *-*	 *-* *-*
Foreign Banks	*2.0*	*-*	*(2.0)*	*-*	*-*
Covered Bonds/Floating Rate Notes	*6.6*	*1.0*	*(1.1)*	*6.5*	*(1.05%-1.47%)& LIBOR+0.27bp - 1.3 Yrs*
AAA-rated Money Market Funds	*5.2*	*-*	*(0.2)*	*5.0*	*Varies daily – average 0.42%*
Pooled Funds: • *Payden* • *CCLA* • *Aberdeen Absolute* • *UBS* • *Threadneedle*	 *5.0* *5.0* *3.0* *5.0* *2.0*	 *-* *-* *-* *-* *-*	 *-* *-* *-* *-* *-*	 *5.0* *5.0* *3.0* *5.0* *2.0*	 *0.84* *4.86* *2.23* *3.72* *4.32*
TOTAL INVESTMENTS	*38.8*	*1.0*	*(6.3)*	*33.5*	
Increase/ (Decrease) in Investments £m				*(5.3)*	

Additional information in relation to the above investments is contained in Appendix C.

2.19 The following charts illustrate the spread of investments by counterparty and maturity analysis. These illustrate continued diversity within the Council's portfolio:

Maturity Analysis as at 31st March 2017	Amount invested £m	%
Instant *	5.0	15
0-3 months	1.0	3
3-6 months	2.0	6
6-9 months	-	-
9-12 months	1.0	3
> 1 year	24.5	73
Total for all duration periods	**33.5**	**100**

* Instant refers to the use of Money Market Funds

3 TREASURY MANAGEMENT INDICATORS

3.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance. The Council has also adopted a voluntary measure for credit risk as set out in paragraphs 3.2 to 3.4.

3.2 Credit Risk (Credit Score Analysis): Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

3.3 The advice from Arlingclose is to aim for an A-, or higher, average credit rating, with an average score of 7 or lower. This reflects the current investment approach with its focus on security. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

3.4 The table below summarises the Council's internal investment credit score for deposits during the year to 31st March 2017. The Council's scores fall comfortably within the suggested credit parameters. This represents good credit quality deposits on the grounds of both size and maturity. The improved credit risk scores during the year reflect the increasing diversity within the Council's investment portfolio.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
Q4 2015/16	3.02	AA-	1.50	AAA
Q1 2016/17	4.74	A+	5.45	A+
Q2 2016/17	2.88	AA	1.57	AA+
Q3 2016/17	2.91	AA	1.38	AAA
Q4 2016/17	2.97	AA	1.21	AAA

3.5 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2016/17 Approved Limit	2016/17 Actual
Upper limit on fixed interest rate exposure	£6m	£6m
Upper limit on variable interest rate exposure	-£27m	-£25m

3.6 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	2016/17 Actual Performance
Under 12 months	100%	0%	*85%*
12 months and within 24 months	100%	0%	*3%*
24 months and within 5 years	100%	0%	*9%*
5 years and within 10 years	100%	0%	*3%*
10 years and above	100%	0%	-

The Council borrowed £4.7m from the Enterprise M3 Local Enterprise Partnership in the previous financial year (2015/16). During 2016/17 the EM3 LEP was repaid £2.129m of the original sum. Additionally, the Council raised an additional £12 million short-term borrowing towards the end of the financial year. The need for this additional borrowing was in relation to an approved increase in capital expenditure examined in a later section of this report. Total borrowing therefore amounted to £14.6 million at 31st March 2017.The above table demonstrates the elements of principal repayment that arise from the sum borrowed expressed as a percentage of the original amount borrowed.

3.7 **Principal Sums Invested for Periods Longer than 364 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Performance against the limits on the total principal sum invested to final maturities beyond the period end is:

	2016/17 Approved Limit	2016/17 Actual Performance
Limit on principal invested beyond year end at any one time	£40m	£24m

3.8 The Council's revised estimates regarding investment yields and costs compared to the actual outturn for 2016/17 is shown in the table below.

Budgeted income and outturn	Revised Estimate 2016/17 £000	Actual 2016/17 £000	Variance £000
Interest receivable	(782)	(751)	31
Interest Payable	13	11	(2)
Net Amount	(769)	(740)	29

4 CONCLUSIONS ON THE TREASURY MANAGEMENT OPERATIONS 2016/17

4.1 The Council's treasury team continued to concentrate on the security of investments taking due regard for the returns available. Continued low interest rates throughout the financial year coupled with a lack of suitable counterparties with whom to invest continued to make the activity challenging. However, overall investment income still managed to produce a buoyant return to the General Fund revenue account.

4.2 All treasury management activity during 2016/17 was carried out in accordance with the Annual Treasury Management Strategy and complied with the treasury and prudential indicators set out in that report, and with the Treasury Management Code of Practice

5 TREASURY MANAGEMENT PRINCIPLES AND SCHEDULES

5.1 Full Council approved the Annual Treasury Management Strategy for 2017/18 on 23 February 2017. In addition to that approval the CIPFA code requires the setting out of responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

5.2 One of the recommendations of the Code is for the creation and maintenance of Treasury Management Practices that incorporate the Principles & Schedules that achieve treasury management policies and objectives. These prescribe how the Council will manage and control those activities. A review of these Principles & Schedules has been recently undertaken and is attached as Appendix D.

6 INCREASE IN CAPITAL BUDGET ALLOCATION FOR THE YEAR 2017/18

6.1 The Council undertook a succession of approved capital acquisitions in relation to investment properties during the previous financial year 2016/17, driven by an aim to furnish revenue returns contained within Part 3 of the Council's 8 Point Plan. These approved 2016/17 investment property acquisitions amounted to around £17m. They generate significant revenue gains to the General Fund revenue account from the point of acquisition and into the future. In order to finance these acquisitions and some other capital expenditure in the year a significant proportion of the Council's capital receipts was utilised for the purposes of financing the capital programme for that year.

6.2 Additional acquisition of similar investment properties is feasible for the current year as market conditions continue to support this process. In order to provide a suitable framework for the Council's staff to assess and negotiate investment property acquisitions, it is considered appropriate for the Council to approve a supplementary capital budget of £15m for the current financial year (2017/18). Approval of this capital budget will enhance the decision making process which needs to be undertaken with a degree of expediency when considering such matters.

6.3 The Council commenced the current financial year with £5.9m of capital receipts. However, all of this available capital receipt resource is held ready to finance the remainder of the approved capital loan to Farnborough International, the ongoing flexible capital receipts initiative and a range of shorter life non-current assets. Hence, the method of capital financing for the proposed additional capital budget of £15m in relation to the acquisition of investment properties can only be achieved by prudential code borrowing.

6.4 On the assumption that all acquisitions would have life duration of at least 50 years, then the Council would bear Minimum Revenue Provision (MRP) of 2% each year commencing in the following financial year (2018/19). Current short-term interest rates are around 0.5% and the Council could currently obtain 50 year long-term borrowing for around 2.4%. All tenant rentals would be on a “repairing lease” standing. The potential revenue returns to the Council in a full financial year (costed at 2017/18 price base) is provided in the following table.

Capital budget for potential investment properties	Potential income return(s)	MRP	Short-term interest	Long-term interest	**Yearly gains applying short-term interest rate**	**Yearly gains applying long-term interest rate**
15,000	(825)	300	75	360	**(450)**	**(165)**
All amounts are expressed in £000						

6.5 It is stressed that the above table of estimated revenue costs/gains in a full financial year is based on current short & long-term interest rate opportunities available to the Council. The table is therefore currently representative of the potential revenue effect.

6.6 A variation to the capital programme in 2017/18 of £15m is proposed, with delegation to Cabinet to draw down on this budget for suitable commercial property acquisitions. The significance of the proposed capital budget and use of borrowing therefore requires a reappraisal of the prudential and indicators contained within the treasury management strategy for 2017/18. These revised indicators are reported in Appendix E.

7 RECOMMENDATIONS

7.1 The Council is recommended to note the contents of this report in relation to the treasury management operations carried out during 2016/17 and approve:

(i) The updated treasury management practices and schedules

(ii) A variation to the capital programme of £15m with delegation to Cabinet to draw down for the purposes of investment property acquisition in 2017/18

(iii) The updated 2017/18 prudential indicators contained in Appendix E

CR. PAUL TAYLOR
CORPORATE SERVICES PORTFOLIO HOLDER

PRUDENTIAL INDICATORS **APPENDIX A**

Comparative information for 2017/18 and future years is provided in Appendix E

1.1 Prudential Indicators

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2016/17 Revised £m	2016/17 Actual £m
General Fund	27.547	21.919
Total Expenditure	**27.547**	**21.919**
Capital Grants & Contributions	2.843	1.316
Revenue	0.728	0.550
Capital Receipts	11.447	13.505
Borrowing	12.529	6.548
Total Financing	**27.547**	**21.919**

Estimates of Capital Financing Requirement:
The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Revised £m	31.03.17 Actual £m
General Fund	13.9	6.5
Total CFR	**13.9**	**6.5**

During 2016/17, the Council made use of a revolving infrastructure fund from the Local Enterprise Partnership (EM3 LEP). This will not give rise to any minimum revenue provision charges into the General Fund as the annual instalments will be funded from capital receipts received from the developer.

The Council therefore now carried a capital financing requirement within the terms of the Prudential Code.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.17 Revised £m**	**31.03.17 Actual £m**
Borrowing	15.0	14.6
Total Debt	**15.0**	**14.6**

The information above refers to the use of a revolving infrastructure fund from the Local Enterprise Partnership (EM3 LEP).

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2016/17 Revised £m**	**2016/17 Actual £m**
Borrowing	20.0	14.6
Other long-term liabilities	-	-
Total Debt	**20.0**	**14.6**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2016/17 Revised £m**	**2016/17 Actual £m**
Borrowing	22.0	14.6
Other long-term liabilities	1.0	-
Total Debt	**23.0**	**14.6**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2016/17 Revised %**	**2016/17 Actual %**
General Fund	-7.5	-7.9

Adoption of the CIPFA Treasury Management Code: The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

APPENDIX B

Market commentary regarding the year 2016/17 from the Council's treasury management advisors Arlingclose

External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.
UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.
Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.
Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.
Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.
Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.
None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

Appendix C

RUSHMOOR BOROUGH COUNCIL - INVESTMENTS OPENING/CLOSING IN 2016/17

	31 03 2016		31 03 2017	
£m	£1m £2m £3m £4m £5m		£1m £2m £3m £4m £5m	£m
		UK Local Authorities		
2.0		Dumfries and Galloway Council		2.0
		UK Banks and Building Societies (Short Term)		
1.0		Bank of Scotland		
2.0		Standard Chartered Certificate of Deposit (K&S)		
		Foreign banks		
1.0		Svenska Handelsbanken (notice account)		
1.0		Svenska Handelsbanken		
		Covered Bonds/Floating Rate Notes		
1.0		Leeds Building Society (FRN via K&S)		1.0
2.2		Leeds Building Society (fixed bond via K&S)		2.2
2.3		Yorkshire Building Society (fixed bond via K&S)		2.3
1.1		Bank of Scotland (fixed bond via K&S)		
		Lloyds Bank		1.0
		AAA-Rated Money Market Funds		
0.1		Aberdeen/Scottish Widows		0.1
1.0		Deutsche Bank		1.5
2.0		Insight		1.6
2.1		Standard Life/Ignis		1.8
		Pooled Funds		
5.0		CCLA		5.0
3.0		Swip Absolute Fund		3.0
5.0		UBS Multi Asset Fund		5.0
5.0		Payden and Rygel		5.0
2.0		Threadneedle Investments		2.0
38.8				33.5

APPENDIX D

TREASURY MANAGEMENT PRACTICES
PRINCIPLES AND SCHEDULES

Introduction:

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2011 Code in February 2017 within the body of the Treasury Management Strategy Statement 2017/18 approved by Full Council. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities

- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

TMP 1: Risk management

TMP 2: Performance measurement

TMP 3: Decision-making and analysis

TMP 4: Approved instruments, methods and techniques

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

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council’s treasury functions.

TMP 1: RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. Decisions on borrowing, investment or financing are taken in accordance with the provisions in the Annual Treasury Management Strategy.

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1) *Credit and Counterparty Risk Management: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council.*

***Principle**: The 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 whom funds may be deposited, and will limit its investment or borrowing methods and techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.*

***Schedule**:*

Criteria to be used for creating/managing approved counterparty lists/limits	*The Head of Finance is responsible for setting prudent criteria and additionally the Council's treasury advisors will provide guidance and assistance in setting the criteria.* *The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis.*
Details of credit rating agencies' services and their application	*The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.*
Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	*The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.* *In addition, the Head of Finance reads quality financial press for information on counterparties.*

2) ***Liquidity Risk Management**: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.*

***Principle**: The Head of Finance will ensure the Council 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.*

Schedule:

Cash flow and cash balances	*The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a monthly cash flow forecast.* *The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned by investing surplus funds.*
Short term investments	*A balance in the region of £200k to deal with day to day cash flow fluctuations is maintained by investing money overnight with the Council's bankers.* *The Council also uses various Current and Call Accounts and Money Market Funds as outlined on the Council's approved counterparty list. The maximum balance on each of these accounts is outlined as part of the Council's investment strategy.*
Temporary borrowing	*Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.* *At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.*
Bank overdraft and standby facilities	*The Council has no authorised overdraft limit with its bankers.*

3) ***Interest Rate Risk Management:*** *Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.*

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

Schedule:

Minimum/ maximum proportions of fixed/variable rate debt/interest	*Borrowing/investments may be at a fixed or variable rate.* *The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.*

Managing changes to interest rate levels	*The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.* *Interest rate forecasts are provided by Arlingclose and are closely monitored by the Head of Finance. Variations from original estimates and their impact on the Council's debt and investments are notified as part of the Council's budgetary management process.*
Details of approved interest rate exposure limits	*As per the Council's prudential indicators, The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest (-£25m for 2017/18). The negative figure results because the Council has more funds available to invest than it intends to borrow for the year 2017/18.*
Details of hedging tools used to manage risk	*The Council will only use the following standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.*

4) **Exchange Rate Risk Management**: The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle: *The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.*

Schedule:

Exchange rate risk management	*This Council does not, on a day to day basis, have foreign currency transactions or receipts, and does not intend to make any investments denominated in foreign currencies.*

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 refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.*

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

Schedule:

Projected capital investment requirements	*4 year projections are in place for capital expenditure and it's financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.* *The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.*
Debt profiling, policies and practices	*Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.* *Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.*
Policy concerning limits on revenue consequences of capital financings	*The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.*

6) ***Legal and Regulatory Risk Management:*** *The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.*

Principle*: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. In framing its credit and counterparty policy under TMP1(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.*

Schedule:

References to relevant statutes and regulations	*The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:* ▪ *CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments* ▪ *CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities* ▪ *CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments* ▪ *CIPFA Standard of Professional Practice on Treasury Management* ▪ *The Local Government Act 2003* ▪ *The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments* ▪ *Pensions, England and Wales - The Local Government Pension Scheme Regulations 2009 – SI 2009 No 3093* ▪ *The CLG's statutory Guidance on Minimum Revenue Provision (MRP)* ▪ *The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments* ▪ *The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883* ▪ *LAAP Bulletins* ▪ *Code of Practice on Local Authority Accounting in the United Kingdom (from 2017/18 onwards)* ▪ *Accounts and Audit Regulations 2003, as amended together with CLG's Guidance* ▪ *Council's Constitution*
Required information from counterparties concerning their powers/ authorities	*Lending shall only be made to institutions on the Council's authorised lending list.* *The Council will only undertake borrowing from approved sources such as the PWLB and LEP, organisations such as the European Investment Bank and from commercial banks who are on the Council's list of authorised institutions, and other local authorities.*
Statement on political risks and management of the same	*Political risk is managed by:* • *adoption of the CIPFA Treasury Management Code of Practice* • *adherence to Corporate Governance (**TMP 12 – Corporate Governance)***

7) ***Fraud, Error and Corruption, and Contingency Management****: This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.*

Principle*: 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.*

Schedule:

Details of systems and procedures to be followed, including Internet services	*Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in* ***TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements****.* *1. <u>Electronic Banking and Dealing</u>* *The Council's online banking service provided by HSBC is subject to separate log-on and password control allowing varying levels of access.* *Full procedure notes covering the day to day operation of the on-line banking system are documented and included in the Operations Manual.* 2. *<u>Payment Authorisation</u>* • *Payments can only be authorised by an agreed cheque signatory(ies) of the Council, the list of signatories having previously been agreed with the Council's bank.* • *Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.* • *Separate officers process, check and authorise dealing transactions.*
Internal Audit	*Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See* ***TMP7 Budgeting, accounting and audit arrangements****.*
Business Continuity	*1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary.* *2. Electronic Banking System Failure: details of emergency arrangements are contained within the Council's Business Continuity Plan, which is maintained by the Director of Resources.*
Insurance Cover details	*The Council has Fidelity Guarantee cover. Cover details are held within the Finance Department.*

8) ***Market Risk Management:*** *This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.*

Principle*: This 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.*

Schedule:

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc.)	*Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.* *Pooled Funds with a Variable Net Asset Value (VNAV) – The Council currently uses pooled funds as per its Treasury Management Strategy, and on advice from its treasury advisors.*
Accounting for unrealised gains/losses	*The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.*

TMP 2: PERFORMANCE MEASUREMENT

Principle: *The Council is committed to the pursuit of value for money 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.*

Schedule:

Policy concerning methods for testing value for money	*Best value reviews will include the production of plans to review the way services are provided by* ▪ *Challenging* ▪ *Comparing performance* ▪ *Consulting with other users and interested parties* ▪ *Applying competition principles* *in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.*
Policy concerning methods for performance measurement	*Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.* *In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.*
Methodology to be applied for evaluating the impact of treasury management decisions	*Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be included with mid-year and year-end Treasury Reports.* *The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. The Council's Treasury Management advisors benchmark the performance, risk and returns of the Council's in-house funds with funds managed on a similar basis by other local authorities.*
Methodology to be employed for measuring the performance of the Council's treasury management activities	*Treasury management activity is reported twice yearly against strategy and prevailing economic and market conditions. The report will include:* *a) Total debt including average rate and maturity profile (where appropriate)* *b) The effect of new borrowing and/or maturities on the above* *c) The effect of any debt restructuring on the debt portfolio* *d) Total investments including average rate, credit and maturity profile* *e) The effect of new investments/redemptions/maturities on the above* *f) The rate of return on investments against their indices for internally and externally managed funds* *g) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)* *h) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.*
Best value	*When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.*

TMP 3: DECISION-MAKING AND ANALYSIS

Principle: *The Council will maintain records of its treasury management decision. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.*

Schedule:

Major treasury decisions	*As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:* *a) changes to Prudential Indicator(s) during the course of the financial year* *b) raising a new long-term loan / long-term source of finance* *c) prematurely restructuring/redeeming an existing long-term loan(s)* *d) investing longer-term (i.e. in excess of 1 year)* *e) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital)* *f) leasing* *g) change in banking arrangements* *h) appointing/replacing a treasury advisor* *i) appointing/replacing a fund manager*
Process	*The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.*
Delegated powers for treasury management	*The Section 151 Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.*
Processes to be followed	*The processes to be followed will be in keeping with **TMP 4: Approved, Instruments, Methods and Techniques**.*
Evidence and records to be kept	*The Council will maintain a record of all major treasury management decisions.*

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle: *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****.*

Schedule:

<table>
<tr><td colspan="2">

Approved treasury management activities

The Council is permitted to undertake the following activities:

- *Managing cashflow*
- *Capital financing*
- *Borrowing including debt restructuring and debt repayment*
- *Lending including redemption of investments*
- *Banking*
- *Leasing*
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques.

</td></tr>
<tr><td>

Approved capital financing methods and types/sources of funding

</td><td>

On balance sheet

- *Public Works Loans Board (PWLB) loans*
- *long term money market loans including LOBOs*
- *temporary money market loans (up to 364 days).*
- *bank overdraft*
- *loans from UK banks or building societies*
- *loans from bodies such as the European Investment Bank (EIB)*
- *loans from UK local authorities*
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- Capital market bond investors
- *Finance Leases*
- *Deferred Purchase*
- *Government and EU Capital Grants*
- *Other Capital Grants and Contributions*
- *PFI/PPP*

Internal Resources

- *Capital Receipts*
- *Revenue Balances*
- *Use of Reserves*

Off balance sheet

- Operating Leases
- Structured Finance

The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

</td></tr>
</table>

Approved investment instruments	*The Council will determine approved investment instruments through its Annual Investment Strategy. The approved instruments are summarised as follows:* ▪ *Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities* ▪ *Term deposits with banks and building societies* ▪ *Certificates of deposit* ▪ *Callable deposits* ▪ Investments in Money Market Funds ▪ *Treasury Bills* ▪ *Gilts* ▪ *Bonds issued by multilateral development banks* ▪ *Sterling denominated bonds by non-UK sovereign governments* ▪ *Pooled funds* ▪ *Investments with Registered Providers of Social Housing* ▪ *Commercial paper* ▪ *Corporate Bonds* ▪ *Floating Rate Notes* ▪ *Reverse repurchase agreements (repos)* *The use of the above instruments by the Council's fund manager(s) (if appointed) will be by reference to the fund guidelines contained in the agreement between the Council and the manager*
Use of Derivatives	*The Council will only use the following standalone financial derivatives:* e.g. swaps, forwards, futures and options *where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.*

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

***Principle**: 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.

Schedule:

Limits to responsibilities at Executive levels	*Full Council:* • *receiving and reviewing Prudential Indicators as part of the budget setting process (following receipt by Cabinet)* • *receiving and reviewing reports on treasury management policies and activities (following receipt by Cabinet)* *Cabinet/Council:* • *approval of amendments to adopted clauses, treasury management policy statement* • *budget consideration and approval*
Principles and practices concerning segregation of duties	*The segregation of duties will be determined by the Head of Finance.* *Segregation of duties exists in that:* • *the officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer(s) with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations.* • *the officer responsible for negotiating and closing treasury management deals is separate from officer authorising payments* • *all borrowing/investments decisions must be authorised by the Head of Finance.*

<table>
<tr><td>Statement of duties/ responsibilities of each treasury post</td><td>The Head of Finance:
submitting budgets and budget variations
recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
submitting regular treasury management policy reports
receiving and reviewing management information reports
reviewing the performance of the treasury management function
ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
recommending the appointment of external service providers
determining long-term capital financing and investment decisions.
The Head of Finance has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.</td></tr>
<tr><td></td><td>Finance & Accounting Manager:
monitoring performance on a day to day basis
submitting management information reports to the responsible officer
identifying and recommending opportunities for improved practices
adherence to agreed policies and practices on a day to day basis
maintaining relationships with third parties and external service providers
Accountant:
execution of transactions
adherence to agreed policies and practices on a day to day basis
maintaining relationships with third parties and external service providers
recording and reconciling treasury management transactions
contributing to the preparation of management information reports</td></tr>
<tr><td>Absence cover arrangements</td><td>Cover in the absence of the relevant treasury management officer is provided by
Finance & Accounting Manager provides cover for Accountant
Head of Finance provides cover for Finance & Accounting Manager</td></tr>
</table>

Dealing

<table>
<tr><td>Authorised officers</td><td>Responsible officer for borrowing/investment decisions :
Borrowing activity: Head of Finance
Lending activity: Head of Finance
Authorising payments for borrowing/lending : Finance & Accounting Manager or Head of Finance
Transaction recording: Accountant</td></tr>
</table>

List of approved brokers	*Brokers used by the Council are named in* ***TMP 11: External Service Providers***
Direct dealing practices	*Direct dealing is carried out with institutions as outlined on the Council's approved investment counterparty list.*
Deal Ticket proforma	*Deals will be recorded as per the deal ticket proforma*
Settlement transmission procedures	• *Settlements are made by CHAPS.*
Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker (if applicable). Investments: • *deal ticket authorising the investment* • *confirmation from the broker* • *confirmation from the counterparty* • *Chaps payment transmission document* *Loans:* • *deal ticket with signature to agree loan* • *confirmation from the broker* • *confirmation from PWLB/market counterparty* • *Chaps payment transmission document for repayment of loan.*
Arrangements concerning the management of counterparty funds	*The Investment and Loans file contains an up to date list of Council's approved investment counterparty list.*

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle*: 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, Cabinet and 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 organisation's treasury management policy statement and TMPs.*

The present arrangements and the form of these reports are outlined below.

Schedule:

1. Frequency of executive reporting requirements	*The Head of Finance will annually submit budgets and will report on budget variations as appropriate.* *The Head of Finance will submit the **Prudential Indicators** and the **Treasury Strategy Statement (including Annual Investment Strategy)** and report on the projected borrowing and investment strategy and activity for the forthcoming financial year before the start of the year.* *The **Annual Treasury Report** will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.* *A **Mid-Year Treasury Report** will be prepared by the Head of Finance, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year.*
2. Treasury Strategy Statement including the Annual Investment Strategy & Prudential Indicators	*The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:* • *Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years* • *Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt* • *the extent to which surplus funds are earmarked for short term requirements* • *the investment strategy for the forthcoming year* • *the interest rate outlook against which the treasury activities are likely to be undertaken*

3. Annual Treasury Report	*The Head of Finance will produce an annual report on all activities of the treasury management function during the financial year.* *The main contents of the report will comprise:* ▪ *the prevailing economic environment* ▪ *a commentary on treasury operations for the year, including their revenue effects* ▪ *commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council* ▪ *compliance with agreed policies and practices, statutory and regulatory requirements* ▪ *compliance with Prudential Indicators* ▪ *performance measures*
4. Mid-Year Treasury Report	*The Head of Finance will produce a mid-year report on borrowing and investment activities of the treasury management function for the first six months of the financial year.* *The main contents of the report will comprise:* • *Economic background* • *Economic forecast (including interest rates forecast)* • *Treasury Management Strategy Statement update* • *Performance versus benchmarks* • *Borrowing information (including premature repayment, new loans information)* • *Information on investments, including current lending list* • *Prudential indicators relating to treasury management* • *Governance framework and scrutiny arrangements*

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle: *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 Performance measurement, and TMP4 Approved instruments, methods and techniques****. The form which the Council's budget will take is set out in the schedule below.*

Schedule:

Statutory/regulatory requirements	***Balanced Budget Requirement****: The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year.* *S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.*
Proper accounting practice	*CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".*
Financial Statements	*The current form of the Council's Financial Statements is available within Financial Services.*
Disclosures relating to treasury management	*Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.*
Treasury-related information requirements of external auditors	*The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.* ▪ *Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.* ▪ *Prudential Indicators.* ▪ *Treasury Management Strategy including Annual Investment Strategy.* • *Details of External borrowing* • *Details of Investments* • *Cash Flow Statement*
Internal Audit	*Audit of the treasury management function forms part of the Internal Audit Plan.* *The internal auditors will be given access to treasury management information/documentation as required by them.*
Compliance with CIPFA Treasury Management and Prudential Codes	*Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.* *Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.*

TMP 8: CASH AND CASH FLOW MANAGEMENT

Principle: *Cash flow projections will be prepared on a regular and timely basis, and the Head of Finance will ensure that these are adequate for the purposes of monitoring compliance with* ***TMP1 [2] liquidity risk management****. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.*

Schedule:

Arrangements for preparing /submitting cash flow statements	*Cash flow forecasts are used to formulate the Council's borrowing and investment strategy.*
Content and frequency of cash flow projections	*The detailed annual cash flow model includes the following:* • *revenue income and expenditure based on the budget* • *profiled capital income and expenditure as per the capital programme*
Monitoring, frequency of cash flow updates	*The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:* • *net RSG and NNDR payments as notified;* • *county council and fire authority & Police and Crime Commissioner precepts;* • *actual salaries and other employee costs paid from account bank statements;* • *actual payments to HMRC from general account bank statements;* • *actual council tax received* • *actual rent allowances paid;* • *actual housing benefit (less: HB subsidy);* • *actual capital programme expenditure and receipts*

TMP 9: MONEY LAUNDERING

***Background**: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering 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.*

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.
***Principle**: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The present arrangements are detailed in the schedule below.*

***Schedule**:*

Anti money laundering policy	*This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering.*
Treasury documentation	*The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:* – *Awareness of what constitutes money laundering (outlined in the Anti-Money Laundering Policy)* – *The obligation to report any suspicions to help prevent and detect money laundering* – *Maintaining up-to-date direct dealing and mandates with counterparties*
Nomination of Responsible Officer(s)	*The Council has nominated the Head of Finance to be the Money Laundering Reporting Officer to whom any suspicions relating to transactions involving the Council will be communicated.*

TMP 10: TRAINING AND QUALIFICATIONS

***Principle**: 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 Head of Finance will recommend and implement the necessary arrangements.*
The present arrangements are detailed in the schedule below.
Schedule:

Qualifications/ experience for treasury staff	*The Council expects its treasury staff to have suitable accounting qualifications and or experience.*
Details of approved training courses	*The courses/events the Council would expect its treasury personnel to consider are:* ▪ *Certificate in International Treasury Management* ▪ *Public Finance Training courses run by CIPFA and IPF* ▪ *Any courses/seminars run by Treasury Management Consultants.* ▪ *Training attended by those responsible for scrutiny of the treasury function*

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

Principle*: The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.*

Schedule:

Details of service providers	(a) *Treasury advisor – Address as from 10th April 2017* *Arlingclose Ltd,* *35 Chiswell Street, London EC1Y 4SE* *Tel 08448 808200* *Contract period: April 2016 to April 2019*

TMP 12: CORPORATE GOVERNANCE

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

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2011). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management.

Schedule:

Stewardship responsibilities	*The Head of Finance ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.*
List of documents to be made available for public inspection.	*The following documents are freely available for public inspection:* *Examples* ▪ *Annual Statement of Accounts* ▪ *Budget Book* ▪ *Treasury Management Policy* ▪ *Treasury Management Strategy* ▪ *Budget Monitoring Reports* ▪ *Annual Treasury Report*
Council's website.	*Financial information is additionally available on the Council's website*

Note: Items the Council would maintain at operational level in an 'Operations Manual' and an 'Investment & Loans File' as referred to in this template. The Council 'Operations Manual' contains the follows:

- Procedure Notes for the Council's treasury management system
- Settlement Procedures
- Procedure Notes for the Council's on-line banking system

The ‘Investment & Loans File’ contains the following:

- Details of all current investments (some of which are contained within transaction files e.g. pooled funds, call accounts) and loans (if applicable)
- Current approved investment counterparties

End of Treasury Management Practices & Schedules

APPENDIX E

PRUDENTIAL INDICATORS	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital Expenditure	21.919	30.945	2.026	2.161
	£m	£m	£m	£m
Financing of Capital Expenditure				
Capital Receipts	13.505	4.600	0.500	0.500
Capital Grants and contributions	1.316	3.285	1.331	1.431
Revenue	0.550	-	-	-
Borrowing	6.548	23.060	0.195	0.230
Total capital financing	21.919	30.945	2.026	2.161
	£m	£m	£m	£m
Capital financing requirement as at 31 March	6.5	29.6	29.7	29.5
Gross debt and the capital financing requirement	£m	£m	£m	£m
Capital Financing Requirement (measured in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years)	36.1	65.5	65.4	65.1
Total gross debt	14.6	37.0	43.0	42.0
Difference	21.5	28.5	22.4	23.1
Operational boundary for external debt	£m	£m	£m	£m
Borrowing	20.0	47.0	50.0	47.0
Authorised limit for external debt	£m	£m	£m	£m
Borrowing	22.0	49.0	51.0	50.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total	23.0	50.0	52.0	51.0
	%	%	%	%
Ratio of financing costs to net revenue stream	-8	-6	0	4
Incremental impact of capital investment decisions	£	£	£	£
on the Council Tax				
General Fund - effect (£ p) on annual band D Council Tax	0.00	(6.75)	(18.31)	(18.19)