

Audit Committee – 11 November 2013

Annual Review of Treasury Management Policy Statement and Practices and mid-year position statement 2013/14

1. Summary of report

- 1.1 This report sets out the council's review of treasury management policy statement and practices (Appendix A) and highlights changes made from the previous year's statements and provides a mid-year position statement for treasury management activities (Appendix B).

2. Recommendations

- 2.1. To approve and recommend the treasury management policy statement and practices (Appendix A) to Council.
- 2.2. To note and forward to Council the mid-year position statement for treasury management activities 2013/14 and prudential indicators (Appendix B).



**James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
31 October 2013**

3. Background information

Treasury Management Policies Review

- 3.1. Treasury Management is defined 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.”

- 3.2. The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management 2009 was adopted by Council on 22 February 2010 and the council fully complies with its requirements.
- 3.3. Primary requirements of the Code include:
- The creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the council’s treasury management activities (Appendix A).

- Delegation by Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions (see treasury management practice 5, page 11 onwards).
- Delegation by Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this council is the Audit Committee.

3.4 The council has a number of key policies and objectives for borrowing and investment. The policies are laid out in the treasury management policy statements attached at Appendix A. The objectives for borrowing are aimed at minimising the revenue cost of borrowing whilst maintaining a balanced loan portfolio. The council's objectives for investments are the prudent investment of council monies with secure institutions at the best possible rates of interest.

3.5 The key area for review in the treasury management practices (TMP's) are the criteria of credit ratings around investments which must be met before an investment may be made. This has been reviewed and reflects the current financial and economic climate (see TMP1 Credit and Counter party risk paragraphs a to g see Appendix A). The delegation allowing the Chief Finance Officer to place non-specified investments e.g. loans to housing associations and bond issues by other public sector projects has now been made explicit.

3.6 This year TMP 9 – Money Laundering in particular has been reviewed and strengthened.

Treasury Management Mid Year Review

3.7 Table 1 shows borrowing and investments administered as at 31 March 2013 and 30 September 2013. It shows that net borrowing has decreased by £13.9m. The higher investment balance is mainly due to the change in profile of grants being received from central Government, in that larger sums are now paid at the start of the year.

Table 1: Borrowing and Investments			
	Borrowing £ m	Investments £ m	Net Borrowing £ m
31 March 2013	255.902	Cr 137.380	118.522
30 September 2013	255.902	Cr 151.285	104.617
Change in year	-	Cr 13.905	Cr 13.905

3.8 Table 2 overleaf shows the mid-year revenue outturn for capital financing which reflects a forecast underspend of just under £1m for 2013/14. This includes windfall income of £0.8m relating to the dividend from Airport shares, mortgages and additional investment income. The main reason for the under spend is due to the higher than forecast cash balance available for investment which is due to the capital carry forward from 2013/14 and a higher rate of return obtained from investments at no additional risk. The mid-year cash position is usually between 10 to 20% higher than the year end position.

3.9 If the opportunity arises for a prudent repayment of borrowing in 2013/14 which would generate significant on-going savings, then some of the £1m may be used to fund any premium charged on this repayment.

Service Area	2013/14 Approved Cash Limit £m	Forecast Outturn as at Sept £m	Saving on cash limit £m	% Variation
Capital financing - MRP	11.245	11.245	-	0.0%
Capital financing - Interest	10.855	10.752	Cr 0.103	- 0.9%
Capital financing - Premiums, Discounts and Recoveries.	0.102	0.030	Cr 0.072	- 70.7%
Net Investments	Cr 0.913	Cr 1.348	Cr 0.435	- 47.6%
Other local authority debt	2.581	2.580	Cr 0.000	0.0%
Other Treasury Costs	Cr 0.595	Cr 0.605	Cr 0.010	1.7%
Total capital Financing	23.275	22.655	Cr 0.620	- 2.7%
Birmingham Airport and Mortgages	Cr 0.141	Cr 0.517	Cr 0.376	- 267.4%
Total	23.134	22.138	Cr 0.996	- 4.3%

3.10 This report and the treasury management annual report 2012/13 approved by Audit Committee on 25th September will be received by council on 13th January 2014. All councillors will also receive an invitation to a treasury management briefing see **Appendix C** attached.

4. Resource and Legal considerations

4.1 Financial

The treasury management policy statement is a key document for the operation, review and performance assessment of treasury management and is reviewed annually. It forms part of the council's financial framework and supports delivery of the medium term financial strategy.

4.2 Legal

The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. Council adopted the original treasury management code in 1992 and further revised Code in 2002 and 2010.

5. Risk and performance management issues

5.1 Risk

Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income

and minimise interest payments without undue or inappropriate exposure to financial risk. It is recognised that the management of risk is as important as maximisation of performance and it is essential that the council has the right balance of risk and reward when making investment decisions. The treasury management policy statement seeks to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council. TMP 1 details the risk management arrangements in place (Appendix A).

5.2 Performance

The treasury management function participates in a local and national benchmarking group which compares Walsall council's treasury management performance with those of other councils. Performance is regularly reviewed by the treasury management panel. The treasury management annual report is distributed to all councillors and used for member training.

The prudential and local indicators as at 30 September 2013 are shown in Appendix B. All key prudential indicators are met or complied with. Local indicators L5 and L6 were slightly above target due to a lack of rescheduling opportunities.

6. Equality implications

6.1 None directly relating to this report.

7. Consultation

7.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Treasury Financial Administration and Systems Manager.

8.0 Background papers

- Various financial working papers
- Annual review of treasury management policy statement 2012/13 Onwards – Audit Committee 14.01.13
- Corporate budget plan and treasury management and investment strategy 2013/14 – Council 21.02.13

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TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA Code recommends that authorities should:

- i. Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.
- iii. Acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

In order to do this, the Council should once again adopt a treasury management policy statement as shown below and create and adopt treasury management practices (TMPs):

- A treasury management policy statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents of the policy statement and TMPs will follow the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect this council's particular circumstances.

There are amendments to the responsible posts under delegated powers which reflect changes to the staffing structure of the finance service.

THE TREASURY MANAGEMENT PRACTICES 2013/14 ONWARDS

Walsall Council defines its treasury management activities as:
 “The management of the organisation’s 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.”

Walsall Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

Walsall Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT FUNCTION	
	<p>The approved activities of the treasury management function are as follows:</p> <p>Activities:</p> <ul style="list-style-type: none"> • Borrowing • Investment of temporary surplus funds and other balances • Setting and reviewing the treasury management strategy • Cash flow management • Management of school investments • Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.

TMP 1 – TREASURY RISK MANAGEMENT	
	<p>The Chief Finance Officer shall:</p> <ul style="list-style-type: none"> • Ensure that appropriate arrangements are in place for the design, implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk. • Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council’s objectives in this respect. • In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.
	<p>Liquidity <u>Objective:</u> Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available which are necessary for the achievement of its service objectives.</p>

<p>Interest Rates <u>Objective:</u> Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.</p>
<p>Exchange Rates <u>Objective:</u> Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.</p>
<p>Inflation <u>Objective:</u> Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.</p>
<p>Credit and Counterparties <u>Objective:</u> To secure the principal sums invested. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited</p>
<p>Rescheduling and Refinancing of Debt <u>Objective:</u> All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining 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.</p> <p>Relationships with counterparties in these transactions will be managed 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.</p>
<p>Legal and Regulatory <u>Objective:</u> Compliance with statutory powers and regulatory requirements for all treasury management activities. The council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.</p> <p>In framing its credit and counterparty policy under TMP1 - <i>Credit and Counterparty risk management</i>, the council will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.</p> <p>The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.</p>
<p>Fraud, Error and Corruption, and Contingency Management <u>Objective:</u> Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.</p>
<p>Market Risk <u>Objective:</u> Protection from adverse market fluctuations in the value of the principal sums invested.</p>
<p>Additional Level Risk / Reward <u>Objective:</u> - to ensure that the risk/ reward balance is appropriate and consistent with the risk appetite of the council the following aims are managed:-</p> <ul style="list-style-type: none"> ▪ to have a large proportion of debt on fixed rates to provide stability. ▪ to have investments over a range of period lengths ▪ to use UK highly rated banks or strong building societies ▪ to obtain a fair return without any undue risk. <p>A high risk credit rating is defined as Banks/Institutions with a national credit rating of > A.</p>

Credit and Counterparty Risk Management

The Treasury, Financial Administration and Systems Manager 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.

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

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

Policy on the use of credit risk analysis techniques.

- a. The council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from rating agencies – Fitch, Moodys and S&P.
- c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.
- d. The Financial Administration and Systems Manager as responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. The primary credit ratings Primary Credit Rating Scales which are used are shown below.

Minimum ratings	Fitch	Moodys	S&P
Short term	F2	P2	A-2
Long term	A	A3	A

- e. Credit ratings for individual counterparties can change at any time. The Treasury, Financial Administration and Systems Manager are 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 the criteria for selection of counterparties, and with the approval of the Treasury, Financial Administration and Systems Manager.

f. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and the credit ratings of that government support
- The maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society.	Minimum Ratings as defined above in paragraph d above.	£25m in total Fixed term not exceeding £15m	3 years
	LAMS scheme	£5m	7 years
Building Societies	Must be at least in the top 14 largest Building Society.	£10m	3 years
	Other Building Societies be in the top 20 in terms of proportion of free capital and profitability.	£7m	3 years
Money Market Funds	AAA long-term rating backed up with lowest volatility rating (MR1+)	£15m	3 years
Non UK Banks	Minimum Ratings as defined above in paragraph d.	£10m	1 year

g. In defining the level and term of deposits significant regard is given to the proportion of the institution in Government ownership.

Notes:

- The definition of 'high credit quality' is also used to determine what are specified investments as opposed to non-specified investments. Specified investments are those that require minimum procedural formalities in terms of the placing of the investment by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
- Non-specified investments may be undertaken on the approval of the Chief Finance Officer e.g. loans to housing associations and bond issues by other public sector projects. These may be for a duration longer than 3 years.
- For a credit rated bank to be on the council's counter party list the criteria must be

passed for at least 2 of the credit ratings agencies.

- Full Individual Listings of Counterparties and Counterparty Limits are available on request and reported regularly to the Treasury Management Panel.

Local Authority Mortgage Scheme (LAMS)

The council is participating in the cash backed mortgage scheme which requires the council to place a matching five year deposit to the life of the indemnity, the deposit may be extended to up to seven years. This investment is an integral part of the policy initiative and is outside the criteria above. Cabinet agreed to adopt the LAMS scheme on 24th October 2012. [LAMS Cabinet Report](#).

Authorisation of Payments

In order to support and maintain strong controls for the release of payments a payment releasers register is maintained. It includes the names and post titles of officers authorised to sign financial documents, releasing payments including cheques requiring manual signature and bank mandates. The payments releasers register is reviewed regularly and is approved by the Chief Finance Officer or Head of Finance.

The Invoice / Payments Authorisation process is regulated by the financial and contract rules. Limits and authorised officers are maintained in the authorised signatories' data base.

TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT

The council actively works to promote value for money and best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement. In addition annual benchmarking is undertaken to measure performance and to ensure that relative to other councils the council is achieving a fair investment return without any undue risk.

TMP 3 – DECISION- MAKING AND ANALYSIS

Full records will be maintained of treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Only approved instruments, methods and techniques will be used, within the limits defined in TMP1 - *Risk Management*.

Sources of Borrowing

There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

Other Sources of Finance

The Chief Finance Officer shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc. where the acquisition or use of such items has been approved in line with the council's contract and rules.

Approved Organisations for Investments

The Chief Finance Officer shall approve and revise from time to time, a list of organisations

within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £25 million and the maximum period for investment shall be 3 months, 6 months, 1, 2 or 3 years in accordance with each individual institution's credibility. This review should be at least monthly and incorporate any changes in ratings of counter parties.

Interest Rate Exposure

The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

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

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure 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.

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 audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the Chief Finance 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 Chief Finance 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 Chief Finance Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the Constitution. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMP's and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

Activity	Prepared By	Delegation / Accountability
Approval of Treasury Management Policies	Head of Finance / Assistant Director of Finance	Audi Committee Council
Approval of Treasury Management and Investment Strategy.	Head of Finance / Assistant Director of Finance	Cabinet Council
Review the debt portfolio and reschedule loans when considered appropriate	Treasury Financial Administration and Systems Manager	Chief Finance Officer

Updates to treasury management practices	Treasury Financial Administration and Systems Manager	Chief Finance Officer
Undertake budget monitoring and initiate actions when necessary	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Head of Finance
Authorisation of loan interest payments	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Approval of overnight investments	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Preparation of borrowings documentation	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from PWLB, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, Council or Cabinet	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Chief Finance Officer
Maintain Payment Releasers Register	Senior Accountancy Officer - Treasury	Chief Finance Officer or Head of Finance
To arrange finance and operating leases as required in accordance with council's capital programme	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Chief Finance Officer or Head of Finance
To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be made by statute, by Council or by Cabinet	Treasury Officer	Senior Accountancy Officer - Treasury
To maintain a counter party list of approved organisations eligible to receive council investments, this involves; - ongoing monitoring of ratings on investment products and institutions.	Senior Accountancy Officer - Treasury	Treasury Financial Administration and Systems Manager Treasury Financial Administration and Systems Manager

- signing off by the treasury manager as evidence of a monthly review and mid month changes if necessary. - if ratings change for an investment product or institution currently held then actions for a possible exit of that strategy are undertaken as approved by the Treasury Management Panel		Treasury Financial Administration and Systems Manager Treasury Financial Administration and Systems Manager and / or Chief Finance Officer dependent on limits set by TMP of exit strategy
Daily cash flow forecast	Accountancy Assistant -Treasury Management	Senior Accountancy Officer - Treasury
Update loan records	Accountancy Assistant -Treasury Management	Senior Accountancy Officer - Treasury
Operational Cash Flow	Accountancy Assistant -Treasury Management	Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Audit and control review and improvements Recommendations implementations	Internal Audit / All	Senior Accountancy Officer - Treasury
Annual MRP Policy review	Senior Accountancy Officer – Treasury / Corporate Financial Systems and Treasury Manager	Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Maintain accurate up to date information on Treasury Management System - Logotech	Accountancy Assistant	Senior Accountancy Officer - Treasury

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Regular reports will be prepared for consideration by Council on:

- Annual report on treasury management activities for the preceding year;
- Treasury Management Strategy for the year, reviewed at least once during the year;

Regular monitoring reports on prudential and local indicators are prepared for the Treasury Management Panel.

Report	Frequency	When	To:
Review of Treasury Management Strategy	Annual	February/ March	Cabinet and Council

Material changes	Immediately		Cabinet and Council
Treasury Management Annual Report	Annual	September	Audit Committee and Council
Review of Treasury Management Policy	Annual	November	Audit Committee and Council
Mid-year report	Annual	September	Audit Committee and Council
TM budget monitoring	Quarterly Monthly	July, Oct, Jan, April	Chief Finance Officer Treasury Management Panel Head of Finance for inclusion in overall corporate financial monitoring reports to CMT and Cabinet which are first reviewed by the Chief Finance Officer
TM performance indicators	Quarterly Monthly	July, Oct, Jan, April	Chief Finance Officer Treasury Management Panel Head of Finance
Cash flow summary	Monthly		Treasury Financial Administration and Systems Manager
Borrowing transactions	Monthly		Treasury Financial Administration and Systems Manager
Payment Releasers Register	Quarterly		Chief Finance Officer Head of Finance
Operational Investment strategy	Quarterly		Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
12 monthly Cash Flow	Quarterly		Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Government statistical returns	Monthly		Office of the Deputy Prime Minister
Daily cash balance forecast	Daily		Senior Accountancy Officer - Treasury

TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Chief Finance Officer will prepare an annual treasury management budget which will bring together all costs involved in running the treasury management function and associated income. This will be presented to Cabinet and Council and is approved as part of the Treasury Management Strategy

The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.

The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this

may damage the council's reputation. Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the payment releasers register.

TMP 8 – CASH AND CASH FLOW MANAGEMENT

All council monies shall be aggregated for treasury management purposes and will be under the control of the Chief Finance Officer. Cash flow projections will be prepared on a regular and timely basis and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 - *Liquidity risk management*.

TMP 9 – MONEY LAUNDERING

Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

As a 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 the council undertakes a number of safeguards including the following: -

- a) evaluates the prospect of laundered monies being handled by them
- b) determines the appropriate safeguards to be put in place
- c) requires every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) makes all its staff aware of their responsibilities under the Proceeds of Crime Act (POCA) 2002

In respect of treasury management transactions, there is a need for due diligence. The council will only 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 BACS or Chaps for making deposits or repaying loans.

The council does continue to manage a local bonds scheme. When repaying these loans or if new loans were taken procedures would be followed to check the bank details of the recipient and the council will confirm the identity of the lender

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.

TMP 10 – STAFF TRAINING AND QUALIFICATIONS

The council will appoint individuals to the treasury management function 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. All the council's senior treasury management staff will be CCAB qualified and have or are working towards a specific TM qualification. An annual review of staff capacity including training needs and experience will be undertaken and reported to the Treasury Management Panel. Specific training for councillors will be undertaken.

TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS

When external service providers are employed, the Chief Finance Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The

terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented.

The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services. The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.

TMP 12 – CORPORATE GOVERNANCE

This authority is committed to the pursuit and achievement of proper corporate governance throughout its business and services and to establish 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 CIPFA Code. The Chief Finance Officer will monitor and when necessary, report upon the effectiveness of these arrangements to Audit Committee.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the Chief Finance Officer or (in his absence) the Head of Finance. It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective treasury performance.

As at 30 September 2013

Prudential Indicators defined within Prudential Code

Indicator	Actual 2012/13 £'000	Target 2013/14 £'000	Position as at 30-Sep-13 £'000	Variance to target		Met	
				£'000	%		
Pr1 1	Capital Expenditure (12/13 target revised due to Capital C/F 11/12 and additional grants).	50,820	82,701	52,432	- 30,269	-37%	Y
Pr1 2	Ratio of financing costs to net revenue stream	7.02%	10.7%	10.31%	-0.39%	-4%	Y
Pr1 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£10.67	£11.48	£11.48	£0.00	0%	Y
Pr1 4	Capital Financing Requirement	305,908	319,279	312,547	- 6,732	-2%	Y
Pr1 5	Authorised Limit for external debt	319,724	351,207	351,207	-	0%	Y
Pr1 6	Operational Limit for external debt	292,093	308,866	308,866	-	0%	Y

Prudential indicators for prudence

Indicator	Actual 2012/13 £'000	Target 2013/14 £'000	Position as at 30-Sep-13 £'000	Met	
Pr1 7	Net Borrowing exceeds capital financing requirement	No	No	NO	Y
Pr1 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	YES	Y
Pr1 9	Total principle sums invested for longer than 364 days must not exceed	14,105	25,000	18,605	Y

Indicator	Upper Limit	Lower Limit	Actual 2011/12	Position as at 30-Sep-13	Met	
Pr1 10	Fixed Interest Rate Exposure	95%	45%	87%	94%	Y
Pr1 11	Variable Interest Rate Exposure	45%	0%	13%	6%	Y
Pr1 12	Maturity Structure of Borrowing					
	Under 12 months	15%	0%	14%	10%	Y
	12 months and within 24 months	25%	0%	9%	6%	Y
	24 months and within 5 years	40%	0%	25%	22%	Y
	5 years and within 10 years	50%	10%	11%	23%	Y
	10 years and above	85%	40%	41%	40%	Y

Locally defined prudential indicators

Indicator	Actual 2012/13 £'000	Target 2013/14 £'000	Position as at 30-Sep-13 %	Variance to target	Met	
				%		
L1	Full compliance with prudential code	Yes	Yes	YES	Y	
L2	Average length of debt	16.03	15 to 25 years	16	Y	
L3a	Net borrowing costs as % of net council tax requirement		6.50%	4.17%	-2.33%	Y
L3b	Net borrowing costs as % of council tax requirement and NNDR contribution		11.50%	10.64%	-0.86%	Y
L4	Net actual debt vs operational debt	88.0%	75% - 90%	88%	-2%	Y
L5	Average interest rate of external debt outstanding excluding OLA	4.53%	4.52%	4.53%	0.01%	N
L6	Average interest rate of external debt outstanding including OLA	4.67%	4.63%	4.67%	0.04%	N
L7	Gearing effect of 1% increase in interest rate	2.74%	5.00%	1.19%	-3.81%	Y
L8	Average interest rate received on STI vs 7 day LIBID rate	1.44%	0.50%	0.68%	0.18%	Y
L9 (a)	AT call investments	0.90%	0.50%	0.70%	0.20%	Y
L9 (b)	Short Term Investments	1.83%	0.90%	1.15%	0.25%	Y
L9 (c)	Long Term Investments	3.70%	2.00%	2.32%	0.32%	Y
L10	Average interest rate on all ST investments (ST and AT call)	1.80%	0.80%	1.04%	0.24%	Y
L11	Average rate on all investments % daily bank balances within target range	2.41%	1.00%	1.20%	0.20%	Y
L12		100%	98%	100%	2%	Y

Treasury Management Briefing

To All Councillors

You are invited to attend **one** Treasury Management Briefing.

When: 5.30pm the Council House

On Tuesday 7th , Wednesday 8th, Thursday 9th' and Friday 10th January 2014.

Aim: To provide members with an understanding of Treasury Management.

The Annual Treasury Management Report 2012/13, Annual Review of Treasury Management Policies and mid-year position statement 2013/14 will be used as key learning material, these reports are due to go to Council on Monday 13th January 2014.

Topics included:-

1. What is Treasury Management

- Borrowing
- Investments
- Cash flow

2. Treasury Management Policies

- The framework of controls and procedures it is operated in
- Risk Management

3. Treasury Management Strategy

- Objectives of the strategy
- How we manage the economic environment
- Interest rate views

4. Key Questions

- Why was Walsall's average rate of investment return of 2.14% significantly higher than the benchmarked average of 1.11%
- Why doesn't Walsall use some of our cash balances to repay debt
- How do ensure we have the appropriate funding in place to support the capital programme

The briefing will include relevant practical examples linked to current affairs for additional interest to members and will last 20 to 30 mins.

If you would like to attend one of the briefings or you would like a briefing arranged for yourself separately please contact:-

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