APPENDIX 12

TREASURY MANAGEMENT STRATEGY STATEMENT 2015/2016

TREASURY MANAGEMENT POLICY STATEMENT and OBJECTIVES

Northumberland County Council (the Council) defines its treasury management activities as:

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

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

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

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.

The Treasury Management Strategy Statement covers:

1. the current portfolio position and performance;
2. economic outlook and prospects for interest rates;
3. the investment strategy;
4. the borrowing strategy;
5. Housing Revenue Account treasury costs;
6. treasury management limits and prudential indicators in force which will limit the treasury risk and activities of the Council;
7. the annual Minimum Revenue Provision Policy Statement;
8. policy on use of external service providers;

9. implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements.

1. THE PORTFOLIO POSITION AT 31 DECEMBER 2014

The Treasury Management Policy Statement for 2014/2015 was approved by Council on 18 February 2014. The strategy was based on the expectation that the Bank of England Base Rate would remain at 0.5% until at least September 2016, when it would begin to rise slowly.

1.1 Borrowing in 2014/2015

The Council's debt at the beginning of the year and at 31 December 2014 was as follows:

External Borrowing	31 Dec 2014 Principal £m	Weighted Average Rate %	31 March 2014 Principal £m	Weighted Average Rate %
Public Works Loan Board Loans	297	3.50	206	3.23
Long Term Market Loans	261	4.10	261	4.10
Short Term Market and all Local Authority loans	113	0.95	75	0.88
Total	**671**	**3.54**	**542**	**3.42**

The Lead Executive Director, under delegated powers, undertakes the most appropriate form of borrowing to fund the Councils capital programme depending on the prevailing interest rates at the time, taking into account the risks shown in forecasts. Full analysis is undertaken before any commitment to borrow, to ensure the Council is achieving value for money.

During the year the Council in line with 2014/2015 borrowing strategy has taken a mixture of short term and long term loans. Total external borrowing has increased by £129 million from £542 million to £671 million and it is anticipated that total borrowing following further repayments will be £666 million by 31 March 2015.

Between 1 April 2014 and 31 March 2015, £209 million of new loans will have been taken to replace repaid debt of £84 million, to fund loans to partners of approximately £55 million and to partly fund the capital programme.

The overall debt portfolio interest rate has increased over the course of the year from 3.42% to 3.54%, as a result of increased longer term borrowing. Although short term borrowing is cheaper and results in short term revenue savings, it presents a liquidity risk and is unsustainable therefore only 25% of total borrowing can be short term.

The Council sets on an annual basis, prudential indicators which help control the amount of borrowing that can be taken. The limits ensure that borrowing is prudent, affordable and sustainable. These limits include the authorised and operational limits. The authorised limit is an overall cap on borrowing levels and the council would not expect to breach this limit. The operational boundary is where the Council would expect its borrowings to be. This is only a guide and may be exceeded or undershot without significant concern. Borrowing has been over the operational boundary by £25 million during the year, and is expected to be over the operational boundary by £16 million by 31 March 2015.

The table below summarises the borrowing position for 2014/2015 in respect of each of these areas by quarter.

	Authorised limit for external borrowing	Operational Boundary for external borrowing	Actual
	£m	£m	£m
Qtr 1	780	650	563
Qtr 2	780	650	586
Qtr 3	780	650	671
Qtr 4	780	650	666

The annual budget for interest payable in 2014/2015 is £22 million. This covers the risk of increased interest rates and covers the cost of borrowing to fund the capital programme. The actual cost is now forecast to be £20 million. Savings have been achieved by securing loans later in the year and at lower rates than expected.

1.2 Investments 2014/2015

The Council manages its investments in-house and invests in a range of low to medium risk instruments with institutions which meet the Council's approved Credit and Counterparty criteria. The Council invests for a range of periods from overnight to twelve months with banks and building societies dependent on the Council's cash flows, the interest rates on offer, durational limits set out in the approved investment strategy and assumptions about future changes in interest rates. Funds are also placed with other local authorities for longer periods.

£715 million of investments were placed and £601 million of withdrawals took place between 1 April 2014 and 31 December 2014. The majority of these transactions were to ensure daily liquidity and were made through the money market funds. The total balance of investments has therefore increased by £114 million. This is due mainly to an increase in borrowing and delay in expenditure and loans to partners. If capital expenditure goes ahead as planned the balance of investments at 31 March 2015 is expected to be £180 million.

£93 million of cash backed reserves are currently placed with other local authorities to ensure security of funds at an average rate of 2.73% and are callable annually by mutual consent.

Up to £70 million was deposited in Lloyds/BOS group during the year. Barclays, Santander UK and Nationwide were also used for periods of up to six months.

To avoid using only a few organisations and to diversify risk, as set out in the 2014/2015 Investment Strategy, unspecified investments were made with two building societies. £5 million was placed for three months with Coventry and Leeds, both of which have assets of over £10 billion.

The best yield possible has been pursued within acceptable risk parameters however due to market conditions interest rates across all investment instruments continue to fall. The best rate of return possible has been pursued within low to medium risk parameters, however the overall weighted average rate the Council achieves on its investments has fallen from 1.42% as at 31 March 2014 to 1.29% as at 31 December 2014.

The table below summarises the investment position for 2014/2015

	31 Dec 2014 Principal £m	Weighted Average Rate 12 months 1 Jan 2014 to 31 Dec 2014 %	31 March 2014 Principal £m	Weighted Average Rate 12 months 1 April 2013 to 31 March 2014 %
Money Market Funds and Call Accounts	41	0.45	33	0.42
Short Term Investments placed up to 12 months	131	0.68	25	0.93
Long Term Investments (excluding Impaired Deposits) for periods of over 12 months	93	2.73	93	2.73
Total Investments	**265**	**1.29**	**151**	**1.42**

An average of 19% was kept in money market funds. This is lower than the targeted 20%, however the monetary value of £46 million offered sufficient liquidity.

Similar to many other authorities, The Co-operative Bank PLC is the Council's main banker. In November 2013, following credit rating downgrades, the Bank advised the Council, that over time, they intend to withdraw banking transmission services to Local Authorities, therefore a contingency account has been opened with Barclays and the tender process for the provision of banking services commenced. Also to manage risk, the level of balances held overnight with the Co-operative Bank is kept to a minimum.

Investments are monitored very closely and none of the institutions used by the Council during 2014/2015 had any difficulty in repaying principal and interest in full.

The budget for 2014/2015 for interest receivable on investments was forecast to be £2.6 million. The revised forecast is now £3.1 million. The £0.5 million increase is mainly due to the fact that the council set a prudent investment income budget and placed investments at periods and rates to give the best rate of return while covering cash flow requirement and remaining within low to medium risk parameters.

1.3 Other Sources of Interest Income

Loans such as those to Newcastle Airport, ARCH and Northumbria Healthcare NHS Foundation Trust are for policy reasons and are therefore outside of the scope of Treasury Management. Interest from these loans is included in treasury management budgets, however the loans are not included in the interest rate comparisons and cannot be included in benchmarking data.

It is now expected that further loans will be made to partners, which will increase estimated other interest receivable in 2014/2015 by £1.4 million.

In total forecast interest receivable will exceed the budget by £1.9 million.

1.4 Interest Rates 2014/2015

Investment and borrowing rates have dropped significantly over the year. In January 2013 the rate for PWLB 50 year loans was forecast to be 4.50%. The actual average rate for the 9 month period ending 31 December was 4.11%. By 31 December 2014 the rate was 3.49%.

The following table shows a comparison between Capita's previous forecasts on interest rates and what the actual rates were:

	Actual Dec 2014 %	*Capita's Forecast (dated 13/01/14) for rates Q/E Dec 2014 %*	Actual 30 Sept 2014 %	*Capita's Forecast (dated 13/01/14) for rates Q/E Sept 2014 %*	Actual 31 Mar 2014 %	*Capita's Forecast (dated 13/01/14) for rates Q/E Mar 2014 %*
Base rate	**0.50**	*0.50*	**0.50**	*0.50*	**0.50**	*0.50*
Money rates (LIBID)						
3 months	**0.44**	*0.50*	**0.44**	*0.50*	**0.40**	*0.50*
6 months	**0.56**	*0.60*	**0.59**	*0.60*	**0.50**	*0.60*
12 months	**0.85**	*0.80*	**0.94**	*0.80*	**0.79**	*0.80*
PWLB certainty rate						
5 years	**2.19**	*2.70*	**2.57**	*2.70*	**2.67**	2.50
10 years	**2.80**	*3.80*	**3.26**	*3.80*	**3.64**	3.70
25 years	**3.50**	*4.60*	**3.84**	*4.50*	**4.31**	4.40
50 years	**3.49**	*4.60*	**3.83**	*4.50*	**4.29**	4.40

While there is little variance in investment rates, there has been an unexpected drop in borrowing rates, which is detailed in section 2.2.

1.5 Reporting and Training Requirements

Treasury management performance is reported monthly to Management Team and quarterly as part of budget monitoring reports to Policy Board.

Audit Committee, Policy Board and Council received the outturn report and the mid-year performance report.

Training for Members was provided by Capita in October 2014.

Treasury management staff attended a number of Capita seminars and workshops.

2. ECONOMIC OUTLOOK AND FORECAST FOR INTEREST RATES

Capita Treasury Services are contracted to advise the Council on treasury matters, part of this service is to assist the Council in formulating a view on interest rates and have therefore provided the following economic and interest rate update.

2.1 The 2014/2015 Economy

Previously strong UK GDP growth of 3.2% in quarter 2 of 2014 has fallen to 2.6% in quarter 3 indicating growth has eased, however it remains a strong rate of growth which is likely to continue into 2015 and 2016.

The Labour Force Survey (LFS) unemployment rate was 6.0% for August to October 2014 , lower than for May to July 2014 (6.2%) and lower than for a year earlier (7.4%).

Also encouraging has been the sharp fall in inflation. The rate of inflation faced by households has fallen to a 12-year low. The Consumer Prices Index (CPI), which measures changes in the prices of the goods and services bought by households, increased by 1.0% in the year to November 2014, down from 1.3% in the year to October. The last time the rate was as low as 1.0% was September 2002. Falling food and motor fuel prices continue to have a downward impact on the rate. Overall, food prices have fallen by 1.7% over the last year and motor fuels by 5.9%.

Pay has increased during August to October 2014 by 1.4% compared to the same period last year.

Labour productivity remains subdued on an annual basis however in quarter 3 output per hour rose by 0.6% the strongest rise since 2011, which may support increases in pay rates.

Public sector borrowing (the difference between spending and income) was £14.1 billion in November 2014, a decrease of £1.6 billion compared with November last year, due to strong growth in VAT and stamp duty. This additional borrowing needed to balance the public sector’s accounts means that between April and

November 2014 the public sector borrowed £75.8 billion, a fall of £0.5 billion compared with the same period last year.

While the deficit has fallen by a third since its peak in 2009/2010, the continued reliance on borrowing has seen public sector net debt reach £1,457.2 billion, or 79.5% of GDP in November 2014. With austerity set to continue the forecast is for PSNB to be 20% lower in 2015/2016.

2.2 Interest Rate Forecast 2015/2016

Capita Asset Services' view on interest rates is contained below.

Forecasting remains difficult and Bank Rate forecasts will be liable to further amendment depending on how economic data transpires over 2015.

Investment returns are likely to remain relatively low during 2015/2016 and beyond.

Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the European Central Bank (ECB) will commence quantitative easing (purchase of Eurozone (EZ) government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries.

The following table gives Capita's view on forecast interest rates.

Capita's interest rate forecast – January 2015

	Q/E Mar 2015 %	Q/E Sept 2015 %	Q/E Mar 2016 %	Q/E Sept 2016 %	Q/E Mar 2017 %	Q/E Sept 2017 %	Q/E Mar 2018 %
Base rate	0.50	0.50	0.75	1.00	1.25	1.75	2.00
Money rates (LIBID)							
3 months	0.50	0.60	0.90	1.10	1.40	1.80	2.10
6 months	0.70	0.80	1.10	1.30	1.60	2.00	2.30
12 months	0.90	1.10	1.40	1.60	1.90	2.30	2.60
PWLB certainty rate							
5 years	2.20	2.30	2.60	2.90	3.20	3.40	3.60
10 years	2.80	3.00	3.30	3.60	3.80	4.00	4.20
25 years	3.40	3.70	4.00	4.30	4.50	4.70	4.80
50 years	3.40	3.70	4.00	4.30	4.50	4.70	4.80

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015

2.3 Capita's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

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

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the Eurozone (EZ) debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro.

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

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- European Central Bank (ECB) either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.

Treasury staff do not rely solely on data provided by Capita and take into account other market commentaries and information from various sources.

The Council subscribes to CIPFA Treasury Management Network and many other sources of information are used to help officers make decisions, as well as attendance at seminars and training events.

3. ANNUAL INVESTMENT STRATEGY 2015/2016

The Council may, at times hold surplus funds due to income received in advance plus balances and reserves held. These funds may be invested, in accordance with guidance from the Communities and Local Government (CLG) and CIPFA.

The aim of the Investment Strategy is to provide security of capital and minimisation of risk while ensuring the Council has sufficient liquidity.

The Annual investment strategy covers:

- Investment objectives;
- Security of capital;
- Type of investments the Council may use;
- Forecast investment balances and the need for liquidity;
- Forecast investment returns;
- Investments defined as capital expenditure;
- Provision for credit related loss;

3.1 Investment objectives

The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and revised in 2010 and 2012, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes ("the CIPFA TM Code").

The general policy objective for this Council is the prudent investment of its surplus cash balances, which includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. over the 4 year medium term planning cycle). The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments and;
- achievement of optimum yield.

Security and liquidity of principal have always been the priority, and will continue to be so. In CIPFA 's view *"The priority is to protect capital rather than maximise return. However the avoidance of all risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for public money.*" In times of budget constraints, making the Council's funds work and generate increased returns is becoming increasingly important. CIPFA encourage Local Authorities to look carefully at their Counterparty Lists to ensure return on investments is achieved.

CIPFA recommends that - "Responsibility for local authorities investment decisions lies, and must continue to lie with the local authorities themselves". The best authorities:

- Explicitly balance risk and reward;
- Review and scrutinise policies and procedures regularly;
- Have well trained staff and engaged elected members; and
- Use a wide variety of information.

The Credit and Counterparty Criteria List should offer diverse counterparties and take into account country sector and group limits.

Following this guidance the Lead Executive Director requests that members approve the amended Credit and Counterparty Criteria List (Annex A). This list clearly sets out the minimum acceptable credit criteria for organisations with which the Council will place funds.

The risk appetite of the Council is medium and security and liquidity continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices. (Annex B)

3.2 Security of capital and creditworthiness

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 criteria list and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only.

Viability, Financial Strength and Support Ratings previously applied will effectively become redundant therefore have been removed from the Credit and Counterparty Criteria List. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps (CDS)” and overlay that information on top of the credit ratings. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The Council applies the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors (the Council uses Fitch and Moody’s). The credit ratings of counterparties are supplemented with the following overlays:

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

The Council is alerted daily to changes to ratings of all three agencies through its use of the Capita creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council’s minimum criteria, no new investment will be made. Consideration will also be given to whether or not existing investments will be withdrawn, which is dependent on whether the bank concerned is agreeable.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Responsibility for local authorities investment decisions lies, and must continue to lie with the local authorities themselves.

3.3 Types of investments the council may use

This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the 2015/2016 financial year. These are listed in the recommended Credit and Counterparty Criteria List. (Annex A)

The recommended Credit and Counterparty Criteria List (Annex A) does not have counterparty names to ensure the Lead Executive Director has the flexibility to place investments with the most suitable organisations, which meet the agreed criteria, in a timely manner.

Treasury staff investigates various products and instruments as they become available to see if they meet the Councils investment priorities and would request their addition to the criteria list if appropriate.

Specified Investments offer high security and high liquidity. All such investments are;

- in pounds sterling;
- are due to be repaid within 12 months or which may be required to be repaid within 12 months;
- are not capital expenditure;
- are made with high credit quality organisations, (for the purpose of this strategy high credit ratings are "A-" and above for long term and "F2/P-2" and above for short term investments).
- the United Kingdom Government or local authority (including the North East Combined Authority), parish council or community council.
- There is no change to the Specified Investment Criteria and it is anticipated that the majority of investments will be specified.

Non-Specified Investments are those which do not meet the criteria for specified investments and give greater potential risk. The CLG do not discourage the use of non-specified investments but state that there is a need for these to be dealt with in more detail. A maximum limit of 25% of total investments may be held in such investments at any one time during the year. There is also a need for guidelines on circumstances in which professional advice should be sought.

In order to ensure that the Council has sufficient counterparties with which to place funds it is requested that the following amendments are made to non-specified investment counterparty criteria.

- It is requested that time limits for investments with building societies, which are the cornerstone of the UK investment market and offer greater diversification, be increased so that enhanced rates can be achieved with organisations if necessary. It was found in

2014/2015 that building societies which met the Council's criteria had sufficient liquidity and were not in the market for deposits of less than six months.
- It is requested that building societies, such as Newcastle Building Society, which have assets in access of £1 billion be added. As many of these do not have credit ratings the value of assets, financial statements and market information will be examined prior to any investments being placed.
- It is requested that approval for Enhanced Cash funds, time limits be increased from 30 days to 12 months. These are Money Market Funds (MMF's) which have a variable net asset value therefore the capital value may vary, therefore will be monitored very closely. These funds can offer an attractive alternative to fixed term deposits for longer term cash investors. They are rated AAA. They usually invest in the same credits as normal MMF's, but can invest in securities with a maximum maturity of 2 year, with weighted average maturity of 6 months. These funds offer access to all the cash with one day's notice, but as it is a variable net asset value (VNAV) fund with a longer investment horizon it is recommended they are placed for 3 to 12 months.

The proposed Credit and Counterparty Criteria List does not advocate riskier investments; it is to be used to ensure diversification of investments over a larger number of organisations and instruments should it become necessary.

Close contact will be maintained with the money market to ascertain the most favourable interest rates on offer to achieve best value from the return on surplus monies available.

Treasury Management staff must agree all investments with the Lead Executive Director or in his absence the Head of Corporate Services or Head of Financial and Customer Services. If it is known that none of these officers will be available the Lead Executive Director may authorise nominated Corporate Services Managers to make short term investment decisions.

Investments will only be placed with organisations which meet the criteria set out in the approved Credit and Counterparty Criteria List. Any changes to the list must be approved by the Lead Executive Director in consultation with the Policy Board Member for Corporate Resources.

Nationalised/part-nationalised banks in the UK have credit ratings which do not comply with the credit criteria used by the Council however due to significant Government ownership the Council feels more comfortable applying higher limits for investments.

Individual investments or aggregate of investments to one organisation should comply with the limits set out in Credit and Counterparty Criteria List.

Investments are to be arranged in line with Treasury Management Practices (Annex B).

The Council will avoid locking into longer term deals while investment rates are down at historically low levels, however if exceptionally attractive rates are available which make longer term deals worthwhile then this will be considered.

While there is risk and uncertainty around the quality of investment counterparties the Council will provide loans to other local authorities in order to ensure security of funds. These loans may be made up to a maximum of fifteen years.

The borrowing of monies purely to invest or lend-on and make a return is unlawful and this Council will not engage in such activity.

The Council may under the Localism Act, be able to use derivatives for the prudent management of their financial affairs, however the Council must ensure it has the Legal power to use such instruments, and fully understand the implications of using such hedging tools and set out a framework for their use. Therefore derivatives will not be used without consulting Capita or other specialist advisors.

3.4 Forecast investment balances and the need for liquidity.

The Council's sources of funding for temporary investment derive from revenue balances, mainly grants received prior to expenditure being incurred and long-term reserves.

Based on cash flow forecasts, it is anticipated that Council fund balances within the 2015/2016 financial year will range between £110 million and £240 million (based on the balances from 2014/2015, adjusted for additional debt and reduction in reserves).

To ensure liquidity a minimum of 20% of its overall investments or £5 million whichever is lower will be held in call accounts. For cash flow generated balances, the Council will seek to utilise its money market funds, call accounts and short-dated deposits (overnight to six months).

3.5 Forecast Investment Return

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

The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2015.

Investment returns expectations

	Forecast Average Rate 2015/16 **%**	Forecast Average Rate 2016/17 **%**	Forecast Average Rate 2017/18 **%**
Money Market Funds and Call Accounts	0.53	1.00	1.60
Short Term Investments placed up to 12 months	1.00	1.20	2.00
Long Term Investments (excluding Impaired Deposits) for periods of over 12 months	2.73	2.73	3.24

3.6 Investments defined as capital expenditure

The acquisition of share capital in any individual company is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. There is an exemption, (which came into force on 31 March 2012) for share or loan capital acquired through a collective investment scheme, because then the risk is reduced by being spread across a number of companies.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan in question is to be made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for ‘specified’ and ‘non-specified’ investments.

The following are classified as service investments for policy reasons, rather than treasury management investments, and are therefore outside of the Specified / Non specified categories; -

- Investment shares in NIAL Holdings (Newcastle Airport) of a fair value of £13.4 million.
- £3.3 million of shares in ARCH a subsidiary of Northumberland County Council

The loans to Newcastle Airport, Northumbria Healthcare NHS Foundation Trust and ARCH are also for policy reasons and are therefore outside of the scope of Treasury Management.

3.7 Provision for credit related losses

If any of the Council’s investments appear at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

4. THE BORROWING STRATEGY 2014/2015

The Council is free to borrow from any sources. All borrowing on the money market will, under normal circumstances, be conducted through the approved brokers list. However, it is possible to deal directly with individual lenders. Similarly, loans can be arranged directly with the Public Works Loans Board (PWLB).

The CLG has recently confirmed that HM Treasury (HMT) are taking the steps to abolish the Public Works Loan Board in the coming months. HMT have stressed that this is purely to address the governance of the PWLB and that it will have no impact on existing loans or the government’s policy on local authority borrowing.

Ministers tabled an amendment to the Infrastructure Bill just before Christmas which would allow them to make an order under the Public Bodies Act 2011 abolishing the PWLB commissioners and transferring their functions to another body. If the amendment is approved by Parliament, ministers would remove the 12 unpaid commissioners, who arguably have a largely ceremonial function. HMT has confirmed that its lending function will continue unaffected albeit under a different body so that LA’s will continue to access borrowing at rates which offer ‘good value for money’**.**

Whilst it is not yet clear what the new governance arrangements will be a consultation on the restructure is due out shortly.

Any money borrowed over periods in excess of one month must be approved by the Lead Executive Director.

Capita, believes that the longer run trend is for gilt yields and PWLB rates to rise. At the current time, PWLB rates are below Capita's trigger levels, indicating an appropriate time to borrow and £100 million has been taken from PWLB.

The Council has access to the PWLB Certainty rate, which is 20 basis points less than normal PWLB rates. From November 2013 a PWLB Project Rate, offering 40 basis point reduction, was also introduced. This is available to the North East Combined Authority for funding Local Enterprise Partnership expenditure. As well as the PWLB, other lenders will be monitored and the most advantageous arrangements selected to ensure liquidity.

The Council does not rely solely on PWLB loans and will continue to explore various lending opportunities, including Bond issuance, to fund the Council's Capital plans.

The Local Government Association has been working in partnership with other LA's to create a Municipal Bond Agency which may be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider this new source of borrowing as and when appropriate.

There is the strong possibility that the Council will enter into a forward deal on borrowing. This means the Council would commit now to borrowing at competitive fixed rates however funds would not be received for a number of years. This gives the Council security of knowing when funds will be available and what the costs of interest payments will be in future. There is some risk that the Council will borrow at set rates and that rates will fall, however Capita are forecasting that by March 2018, 50 year PWLB borrowing rates will have increased to 4.80%. The council would need to borrow shorter term funds, at lower rates, in the interim.

It is forecast that at the end of March 2015 the Councils external debt portfolio will consist of the following maturity profile, showing that £179 million of repayments will need to be replaced by new borrowing within the next five years.

Maturity	**Borrowing £m**
Between 1 and 2 years	63
Between 2 and 5 years	116
Between 5 and 10 years	54
Between 10 and 20 years	27
Between 20 and 30 years	10
Between 30 and 40 years	58
Between 40 and 50 years	67
Between 50 and 60 years	141
In excess of 60 years	131
	666

The Capital Financing Requirement (CFR), based on capital spend of £452million is increasing by £212 million over the next three years and is shown in Appendix 10, the expected increase in borrowing to fund the capital programme between 1 April 2015 and 31 March 2018 is, £230million

Taking into account Capita's forecast of interest rate increases it is proposed that a mixture of short term and long term loans will be taken over the next two financial years to reduce revenue costs. The Lead Executive Director, will however continue to scrutinise all lending opportunities to ensure borrowing is taken at the most advantageous time and rates.

New borrowing may be delayed although not at the expense of higher interest rates in the future.

4.1 Policy on borrowing in advance of need

The Council has some flexibility to borrow funds this year for use in future years. Where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. The Lead Executive Director may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. The Lead Executive Director will adopt a cautious approach to any such borrowing and the Council will not borrow purely in order to profit from the investment of the extra sums borrowed. Borrowing in advance will be made within the constraints of the Code.

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

4.2 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment premiums.

The reasons for any rescheduling to take place will include:

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

The Council will seek advice from Capita before any rescheduling of debt and all rescheduling will be reported to the Council at the earliest meeting following its action.

5. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

5.1 Overview

Following implementation of the HRA self-financing reforms in April 2012, a separate pool of specific loans is now maintained for the HRA. The interest costs associated with these loans are charged direct to the HRA. This arguably negates the need for the former HRA Item 8 charge; which allocated a share of the Authority's overall borrowing costs to the HRA.

For the most part, the HRA will aim to ensure that new loans are taken out (or repaid) to match any anticipated movement in its borrowing requirement - known as the HRA Capital Financing Requirement (HRA CFR). There will however be instances during the year when the balance of the HRA loan pool - i.e. actual external borrowing charged to the HRA - does not equate exactly to the HRA CFR. In such circumstances the HRA is in effect borrowing from (or lending to) the General Fund and an additional charge (or credit) is necessary in order to reflect the notional cost of this imbalance. The Council's proposed policy for this arrangement is as follows:

5.2 Policy for HRA Under and Over Borrowing

HRA Under-Borrowing

- Where the weighted average balance of the HRA (external) loans pool is less than the weighted average HRA CFR for the same period, notional interest will be charged to the HRA at the average rate of interest for 30-year PWLB borrowing for the period.

HRA Over-Borrowing

- Where the weighted average balance of the HRA (external) loans pool is greater than the weighted average HRA CFR for the same period, notional interest will be paid to the HRA at the average 3-month London Interbank Bid (LIBID) rate for the period.
-

5.3 Other Treasury Management Charges to HRA

As under the former Item 8 arrangements, the HRA will continue to receive interest (or investment income) on its weighted average balances for the year, based on the Council's overall average investment rate.

The HRA will also continue to be charged a proportion of the authority's overall debt management expenses (based on the CFR proportions), as well its share of any historic premiums or discounts associated with the premature repayment of borrowing. Any future / new premiums or discounts will be met fully by the relevant fund of the underlying loan – i.e. premiums or discounts related to loans within the HRA loan pool will be charged fully to the HRA, and vice versa.

6. PRUDENTIAL INDICATORS and TREASURY LIMITS 2015/2016 to 2017/2018

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans

Councils are required to approve a set of Prudential Indicators for the new financial year and adhere to these indicators during the course of that year. The indicators are to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Prudential Indicators for 2015/2016 – 2017/2018 are set out in Appendix 10.

7. THE ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to make additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve an MRP policy in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement as detailed within Appendix 11.

8. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

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

The Council uses Capita Asset Services - Treasury Solutions Ltd (previously known as Sector Treasury Services) as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and templates of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio and
- Generic investment advice on interest rates, timing and investment instruments.
- A weekly credit rating report.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remain with the Council. The Lead Executive Director will ensure that undue reliance is not placed upon external service providers and that the service is subject to regular review.

9. IMPLEMENTATION OF THE TREASURY MANAGEMENT STRATEGY, SCHEME OF DELEGATION, TRAINING AND REPORTING REQUIREMENTS

9.1 Implementation of the Treasury Management Strategy

The continued implementation of the above strategy and procedures is the responsibility of the Lead Executive Director, who is authorised to arrange the necessary borrowings within the limits set out in the Prudential Indicators, and necessary investments as set out in the investment strategy.

Northumberland County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Policy Board.

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

Treasury Management Practices (TMP's) (Annex B) set out the manner in which the Council will seek to achieve the treasury management policies and objectives. The Council follows CIPFA's suggestions on the specific details of the systems and routines to be employed and the records to be maintained.

9.2 Treasury Management Practices (TMPs)

The Council has adopted the recommended form of words defining the Council's treasury management practices (TMPs), contained in and in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. These practices are as follows:

TMP1	Credit and Counterparty Risk management;
TMP2	Best value and performance measurement;
TMP3	Decision-making and analysis;
TMP4	Approved instruments, methods and techniques;
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements;.
TMP6	Reporting requirements and management information;
TMP7	Budgeting, accounting and audit arrangements;
TMP8	Cash and cash flow management;
TMP9	Money laundering;
TMP10	Training and qualifications;
TMP11	Use of external service providers;
TMP12	Corporate governance.

Members are requested to note the following updates to Treasury Management Practices (TMP) schedules.

TMP 1.8.3 Insurance details

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The excess for Fidelity guarantee is £5,000 *(Increased from £2,500)*:

TMP 8 .4 Bank Statement Procedures

Payments by CHAPs, Direct Debits, standing orders and Imprest accounts are now input by Accounts Payable directly to e-business rather by journal which gives greater transparency and segregation of duties.

TMP11 Use of external service providers

Martin Brokers have been taken over by –

BGC Brokers L.P.
One Churchill Place
London, E14 5RD

The contract with Capita Asset Services Treasury Solutions has been extended for two years.

9.3 Responsible Officers

Treasury management activities will be undertaken by the Senior Accountant responsible for treasury management within the Business Support section of Corporate Services, as set out in TMP5. If absent, another Senior or Principal Accountant, within Business Support section will undertake these activities.

The Corporate Services Manager wil ensure all treasury management activities are made in accordance with agreed policies and practices.

9.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members received training in October and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. Each officer concerned will receive appropriate training and guidance on their duties and the constraints within which they operate

9.5 Reports and Monitoring

To ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities, reports need to be submitted to full Council which need to be reviewed by Members of the Council in both Policy and Scrutiny functions.

The adequacy of the strategy statement will be monitored and reports requesting amendments to the statement will be produced when changes are thought to be necessary. The changes will be made in consultation with the Policy Board Member for Corporate Resources, whose role relates to the strategy and associated risks. Any strategy changes will be reported to the Audit Committee.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by Audit Committee before being recommended to the Council.

Treasury Management Strategy Statement

The first, and most important report covers:-

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

A Mid Year Treasury Management Report

This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

It is proposed that the Council follow reporting arrangements in accordance with the requirements of the revised Code.

Area of Responsibility	Council/ Committee/ Officer	Frequency
Scrutiny of treasury management strategy	Audit Committee or Risk Appraisal Panel	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy and Treasury Management Practices	Policy Board / Full Council	Annually before the start of the year
Annual Treasury Outturn Report	Policy Board / Full Council	Annually by 30 September after the end of the year
Treasury Management Budget Monitoring Reports	Incorporated within the Budget Monitoring report and reported separately to Audit Committee	Quarterly
Scrutiny of treasury management performance	Audit Committee	As required
Updates or revisions to Treasury Management Strategy / Annual Investment Strategy / MRP policy –	Policy Board / Full Council	Ad- hoc

The policies and strategies set out in this document will ensure that the management and administration of treasury management will be robust, rigorous and disciplined.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection will be applied with an openness of access to information and provide well-defined arrangements for review and implementation of changes.

Implications

Policy:	The report sets out the Treasury Management Policy Statement for 2015/2016, and is consistent with the priorities in the Corporate Plan 2013-2017: Developing the Organisation (Innovation and Partnership).
Finance and value for money:	The financial implications of the 2015/2016 investment and borrowing transactions have been taken into account within the budget for 2015/2016. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.
Legal:	The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010.
Procurement:	There are no direct procurement implications for the County Council.
Human Resources:	There are no direct staffing implications for the County Council.
Property:	There are no direct property implications for the County Council.
Equalities: (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	Not applicable for the County Council.

Risk Assessment:	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder:	There are no Crime and Disorder implications for the County Council.
Customer Consideration:	There are no Customer Considerations for the County Council.
Carbon Reduction:	None.
Wards:	All divisions.

Consultation:

Deputy Leader of the County Council

Background Papers:

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes. (revised 2011).
CIPFA Prudential Code for Capital Finance in Local Authorities.
Guidance on Local Government Investments The Local Government Act 2003,
Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265)

Report sign off:-

Executive Director	Steven Mason
Portfolio Holder(s)	Dave Ledger

Author and Contact Details

Debbie Dawson – Senior Accountant

(01670) 622158
debbie.dawson@northumberland.gov.uk

CREDIT AND COUNTERPARTY CRITERIA

The Council recognises the need for security of principal to be of paramount importance. In recognition of the need to minimise risks associated with its treasury management activities, credit rating criteria, as outlined below will be used to select counterparties with whom the council will place funds. The Lead Executive Director will analyse all counterparties prior to investing funds.

Specified Investments

Type of organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	**Moody**		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 years (with annual calls)
DMO	N/A	N/A	Unlimited	6 mths
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 mths
Nationalised and semi-nationalised banks	N/A	N/A	£35m per bank £70m per banking group	12 mths
Money Market Funds	AAA	Aaa	£25m per fund (£150m in total)	Instant Access
Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria				
Very High Grade U.K. Clearing Banks / Building Societies	ST: F1+ LT : AA-	ST: P-1 (2)	£25m £50m per banking group	12 mths
High Upper Medium Grade U.K. Clearing Banks/ Building Societies	ST: F1 LT: A-	ST: P-1 LT: A3	£15m £30m per banking group	12 mths
High Grade Foreign Banks	ST: F1 LT : A-	ST: P-1 LT: A3	£10m Country limit £30m	6 mths

Non-specified Investments.

No more than 25% of the total investment portfolio will be placed in non-specified investments.

Type of organisation	Minimum Credit Rating Criteria		Max Amount of Principa	Max Period
	Fitch	**Moody**		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 Years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimite	15 Years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fun (£60m in tota	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F1 LT: A-	ST: P-1 LT: A3	£10 per institutio	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F2 LT: A-	ST: P-2 LT: A3	£5 per institutio	12 mths
Good, Medium grade, moderate credit risk	ST: F2 LT: BBB	ST: P-2 LT: Baa1	£10m per banking group	6 mths
Building Societies which have assets in excess of £10 billion	N/A	N/A	£12m per Building Society	12 (was 6)mths
Building Societies which have assets in excess of £5 billion	N/A	N/A	£10m per Building Society	6 (was 3) mths
Building Societies which have assets in excess of £1 billion	N/A	N/A	£5m per Building Society	3 mths
Foreign Banks (only for the repayment of Icelandic Investments)	N/A	N/A	Currency equivalent to £5m (Country limit £10m)	No limit(was 6 mths)

Ratings determine limits except for nationalised, semi-nationalised and local authorities.

Unrated subsidiaries can be used providing there is an unconditional guarantee from a rated parent.

Rating Symbols

Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same.
Moody - The Moody's rating scale runs from a high of Aaa to a low of C, and comprises of 21 notches. It is divided into two sections, investment grade and speculative grade. The lowest investment grade rating is Baa3. The highest speculative grade rating is Ba1.

Fitch - The Fitch rating scale runs from a high of AAA to a low of D, and comprises of 21 notches. It is divided into two sections, investment grade and speculative grade. The lowest investment grade rating is BBB. The highest speculative grade rating is BB. Thus, the use of credit ratings defines their function: "investment grade" ratings (international long-term 'AAA' - 'BBB' categories; short-term 'F1+' - 'F3') indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D'; short-term 'B' - 'D') may signal a higher probability of default or that a default has already occurred.

Fitch rating	**Moody's rating**	**Risk**
Long term ratings (maturities of one year or greater)		
Investment Grade		
AAA	Aaa	Highest rating, representing lowest level of credit risk
AA+, AA, AA-	Aa1, Aa2, Aa3	Very High grade, very low credit risk
A+, A, A-	A1, A2, A3	High (Fitch) Upper medium grade(Moody's), low credit risk
BBB	Baa1, Baa2, Baa3	Good, Medium grade, moderate credit risk
Speculative Grade		
BB+, BB, BB-	Ba1, Ba2, Ba3	Speculative elements, vulnerable to default
B+, B, B-	B1, B2, B3	Subject to high credit risk
CCC, CC+, CC,CC-	Caa1, Caa2, Caa3	Poor standing very high credit risk
DDD	Ca	Highly speculative, or near default
D+, D	C	Lowest rating, typically in default, little prospect for recovery of principal or interest
Short term ratings (maturities of less than one year)		
F1+	Prime- 1 (P-1)	Superior ability to repay ST debt
F2	Prime-2 (P-2)	Strong ability to repay ST debt
F3	Prime-3 (P-3)	Acceptable ability to repay ST debt
B-D	Not Prime	Poor, risk of default

TREASURY MANAGEMENT PRACTICES – SCHEDULES

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

TMP1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 10 February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Lead Executive Director has produced its treasury management practices (TMPs).

1.1 LIQUIDITY

1.1.1 Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to ensure that there is nil balance 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, and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

1.1.2 Details of:

a) Standby facilities
The County Council has several instant access Money Market Funds and call accounts, where monies can be invested or withdrawn as required on the same day.

b) Bank overdraft arrangements
A £400,000 overdraft at 2% over base has been agreed as part of the annual review. The overdraft is assessed on a group basis for the Council's accounts

c) Insurance/guarantee facilities
See TMP 1.8.3

1.2 INTEREST RATE

1.2.1. Details of approved interest rate exposure limits

Please refer to Prudential Indicators Appendix 10.

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

Please refer to annual treasury strategy which will outline views for the year.

1.2.3 Minimum/maximum proportions of variable rate debt/interest

Maximum proportion of interest on borrowing which is subject to variable rate interest permissible is 50%.

Minimum proportion of interest on borrowing which is subject to variable rate interest permissible is 0%.

1.2.4 Minimum/maximum proportions of fixed rate debt/interest

Minimum proportion of interest on borrowing which is subject to fixed rate interest permissible is 50%.

Maximum proportion of interest on borrowing which is subject to fixed rate interest permissible is 100%.

1.2.5 Policies concerning the use of financial derivatives and other instruments for interest rate management.

a). Forward dealing (agreeing to invest money at a future date)

Consideration will be given to dealing from forward periods dependent upon market conditions. Any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy. All forward dealing should have the approval of the either the Lead Executive Director; Head of Corporate Services; or the Head of Financial and Customer Services.

b). Callable deposits

Callable deposits are permitted subject to approval from the Lead Executive Director.

c). LOBOS (borrowing under lender's option/borrower's option)

The use of LOBOs are considered as part of the borrowing strategy. Any money borrowed for periods in excess of one month must be approved by either the Lead Executive Director; Head of Corporate Services; or the Head of Financial and Customer Services.

1.3 <u>EXCHANGE RATE</u>

1.3.1 Approved criteria for managing changes in exchange rate levels

Exchange rate risk will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Northumberland County Council rarely deals with foreign currency so an exposure to exchange rate risk will be extremely minimal.

On rare occasions where investments are made in non-sterling, advice on the risk to exchange rate fluctuations will be sought from the Council's bankers and other professionals as necessary.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.4 INFLATION

1.4.1. Details of approved inflation exposure limits for cash investments/debt - There is significant uncertainty with economic forecasts. Whilst short term investment rates are expected to remain on hold until September 2015, borrowing rates are expected to rise continually from March 2015. Inflation is expected to remain within 1%. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.4.2. Approved criteria for managing changes in inflation levels - Inflation both current and projected will form part of the debt and investment decision-making criteria within both the strategy and operational considerations.

1.5 CREDIT AND COUNTERPARTY POLICIES

1.5.1. Criteria to be used for creating/managing approved counterparty lists/limits

a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed.

b) Treasury management staff will decide which counterparties to use in line with the strategy on criteria for selection of counterparties. Changes to the Credit and Counterparty Criteria List will be included in the annual report, mid year report, or where necessary an ad hoc report to Council.

c) Credit ratings will be used as supplied from at least two of the following credit rating agencies:

- Fitch Ratings
- Moody's Investors Services
- Standard & Poor's

d) Treasury Management Consultants provide a weekly update of all ratings relevant to the council, as well as any changes to individual counterparty credit ratings. It is hoped this information will soon be accessible on line via Capita's new website - Passport.

e) No lending is allowed without prior approval.

f) Subsidiaries that do not have a credit rating in their own right, may be used If they are guaranteed by a highly rated parent company.

g) The maximum value for any one investment transaction will be £35 million

h) Investment in the building society sector should be limited to 30% of the average annual investment balances.

1.5.2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Lead Executive Director is responsible for applying the credit rating criteria detailed in the Treasury Management Strategy Statement for selecting approved counterparties.

The Lead Executive Director will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria set out in the Treasury Management Strategy Statement. This is delegated on a daily basis to staff in the treasury management function.

1.6 REFINANCING

1.6.1. Debt/other capital financing maturity profiling, policies and practices

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

a) The generation of cash savings at minimum risk;
b) To reduce the average interest rate;
c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility).
d) To reduce the risk associated with the investment of surplus funds.

The Lead Executive Director has delegated authority, in consultation with the Policy Board Member for Corporate Resources, to reschedule current long-term debt and to arrange the necessary borrowings within the following remit: -

a) The maximum amount of outstanding borrowing shall be as stated in the prudential indicators.

b) Within that sum the maximum amount of short term borrowing is 25%.

c) The limit on the proportion of borrowings on which interest is payable at variable rates is 50%,

The Council will seek to limit refinancing exposure by ensuring that no more than 25% of the loan portfolio matures in any one year.

1.6.2. Projected capital investment requirements

As part of the annual budget setting process a four year plan for capital expenditure for the Council is produced. The capital plan will be used to prepare a four year revenue budget for asset rentals which include loan charges of principal repayments, interest and expenses. These take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

1.6.3. Policy concerning limits on revenue consequences of capital financing

The Prudential Code supports local authorities in determining their Capital Programmes, within the clear framework that the plans are affordable, prudent and sustainable. To demonstrate that local authorities fulfil these criteria the Code sets out indicators that must be used.

A number of these Prudential Indicators are relevant to setting an integrated treasury management strategy. The indicators are set on a rolling basis, for the forthcoming financial year and two successive financial years.

Please refer to the prudential Indicators are contained within Appendix 10.

1.7 LEGAL AND REGULATORY

1.7.1. References to relevant statues and regulations

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

a) CIPFA's Treasury Management Code of Practice (revised 2009 and 2011)
b) The Prudential Code for Capital Finance in Local Authorities 2003 (revised 2009 and 2011)
c) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
d) CIPFA Standard of Professional Practice on Treasury Management
e) Local Government Act 2003 (revised 2010)
f) The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
g) Council's Constitution relating to Contracts
h) Council's Finance and Contract Rules
i) Council's Scheme of Delegations
j) The Bribery Act 2010

1.7.2. Procedures for evidencing the organisation's powers/authorities to counterparties

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

a) A Treasury Management Strategy Statement, stating the overriding principles and objectives of its treasury management activities; and
b) The Annual Investment Strategy

1.7.3. Required information from counterparties concerning their powers/authorities

Lending shall only be made to counterparties which meet the criteria set out in the Credit and Counterparty Criteria List.

Northumberland County Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4. Statement on the organisation's political legislative or regulatory risks

The Council recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

1.8.1. Details of systems and procedures to be followed, including internet services

a) Authority:
- Loan procedures are defined in the Council's Financial Regulations.
- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons within the Corporate Services Group.

b) Occurrence:
- Detailed register of loans and investments is maintained on Excel spreadsheets in the Business Support section. This is reconciled to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend, invest or borrow.
- Written confirmation is received from the lending, investment or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

c) Completeness:
- The loans register is updated to record all lending and borrowing. This includes the date of the transaction, interest rates etc.

d) Measurement:
- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the senior accountant responsible for Treasury Management.
- The senior accountant calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to these lenders.

e) Timeliness:
- The Treasury Management spreadsheet / diary prompts the treasury management officer that money borrowed or invested is due to be repaid.

f) Regularity:
- Investments and loans are only made to institutions which meet the Credit and Counterparty Criteria List.
- All loans and investments raised and repayments made go directly to and from the Council's bank account.
- Authorisation limits are set for every institution, the Credit and Counterparty Criteria List. Brokers have a list of named officials authorised to perform investment transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- There is a separation of duties in the Section between the authorisation of transactions and their execution.

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger by the senior accountant and checked by the Corporate Services Manager responsible for Treasury Management

g) Security:
- Financial Director Online can only be accessed by a PIN generated by each users security token.
- Payments can only be authorised by an agreed bank signatory. The list of signatories having previously been agreed with the current provider of our banking services.

h) Substantiation:
- A quarterly reconciliation is carried out matching transactions from the Treasury Management spreadsheets to the financial ledger codes.

1.8.2. Emergency and contingency planning arrangements

Financial Director online can be accessed on any PC. All spreadsheets are held on the shared drive and therefore can be accessed by other PC's if necessary. If the Electronic Banking System fails cash balances can also be obtained via a fax from the Co-op Bank, and CHAPs payments, which are normally input directly into Financial Director by the income section, can be faxed to the bank for processing.

1.8.3. Insurance details

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The excess for Fidelity guarantee is £5,000. The Council also has a 'Professional Indemnity' insurance policy with Griffiths & Armour Professional Risks which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5 million (named departments) for any one event with an excess of £25,000 for any one event with the exception of legal services where the limit is £1,000,000 with an excess of £1,000 for any one event.

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal

1.9 <u>MARKET VALUE OF INVESTMENTS</u>

1.9.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS Etc)
In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective

TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

2.1 <u>METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS</u>

Northumberland County Council is a member of the CIPFA and Capita benchmarking clubs. Comparisons will be made with a number of similar authorities. Our Treasury Management consultant will carry out a regular health check of our Treasury Management function.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1 Frequency and processes for tendering

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.2.2 Banking services

Banking services will be tendered for every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

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

2.2.4 Consultants'/advisers' services

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

2.2.5 Policy on External Managers (Excluding Superannuation Funds)

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

Performance measured against Annual Treasury Strategy Statement targets.

a) Compliance to CIPFA Code of Treasury Practice.
b) Expenses contained within approved budget.
c) Review of benchmarking club data.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY

2.4.1 Debt management

- Average rate on all external debt.
- Average period to maturity of external debt.
- Average rate on external debt borrowed in previous financial year.

2.4.2 Investment

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate). Performance will also be measured against other local authority funds with a similar benchmark.

TMP3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

3.1.1 Records to be kept

- All loan transactions are recorded on loan cards and a spreadsheet. The following records will be used relative to each loan or investment:
- Daily cash projections.
- Telephone/e-mail rates.
- Dealing slips for all money market transactions – including rate changes.
- PWLB loan schedules.
- Temporary loan receipts.
- Brokers confirmations for deposits/investments

3.1.2 Processes to be pursued

- Cash flow analysis.
- Maturity analysis.
- Ledger reconciliations
- Review of borrowing requirement.
- Comparison with prudential indicators.
- Monitoring of projected loan charges and interest and expenses costs.
- Review of opportunities for debt rescheduling.

3.1.3 Issues to be addressed

3.1.3.1. In respect of every decision made the organisation will:

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

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

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

3.1.3.3 In respect of investment decisions, the organisation will:

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

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

a) Borrowing;
b) Lending;
c) Debt repayment and rescheduling;
d) Consideration, approval and use of new financial instruments and treasury management techniques;
e) Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
f) Managing cash flow;
g) Banking activities.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will be made following the Approved Credit and Counterparty Criteria List

Investments can be made through one of the following;

- The Council's bankers;
- The SunGard Portal or other online portals;
- Direct with banks and financial institutions;
- One of the Council's approved brokers shown in TMP 11:

All cash investments should be arranged by telephone call to the above organisations and the borrower concerned will confirm each transaction. An authorised CHAPS payment form is then input into the Bank's electronic

Financial Director system by the Cashiers section. A confirmation that the transaction has been completed is then printed from the electronic Financial Director system.

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

4.3 APPROVED BORROWING TECHNIQUES

a) LOBO's
b) PWLB
c) Local authorities

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act, 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper (an unsecured and unregistered short-term obligation issued to investors who have temporarily surplus cash)	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●

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

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

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

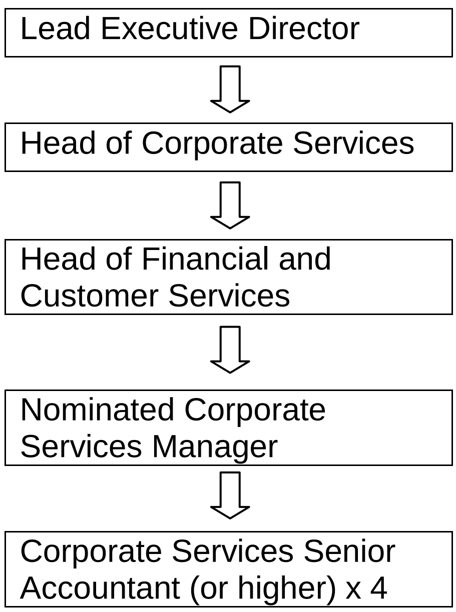
5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/POLICY BOARD LEVELS

a) Full Council will receive and approve reports on treasury management policies, practices and activities, the annual treasury management strategy and annual report on debt rescheduling.
b) The Lead Executive Director will be responsible for amendments to the organisation’s adopted clauses, treasury management strategy statement and treasury management practices. A formal report will be put to Policy Board to approve any formal amendments.
c) The Lead Executive Director will approve the segregation of responsibilities.
d) The Lead Executive Director will receive and review external audit reports and put recommendations to the Audit Committee.
e) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Lead Executive Director in accordance with Financial Regulations.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

a) The Lead Executive Director in consultation with the Policy Board Member for Corporate Resources will authorise all new long-term borrowing.
b) Transactions relating to pre-existing agreements are delegated to the senior accountant responsible for treasury management.
c) Short-term borrowing and investment are authorised by the Lead Executive Director, Head of Financial and Customer Services, Head of Corporate Services or, in their absence, a Corporate Services Manager.

5.3 TREASURY MANAGEMENT ORGANISATION CHART



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1. Policy Board Member for Corporate Resources

a) The Policy Board Member has primary political responsibility for Treasury Management strategy and will be regularly briefed on Treasury Management performance and proposed policy changes by the Lead Executive Director.

b) The Policy Board Member has the right to recommend to the Lead Executive Director that a particular transaction should go to the Risk Appraisal Panel.

c) The Policy Board Member may attend Audit Committee.

5.4.2 Lead Executive Director

a) The Lead Executive Director will:
   - i) Recommend clauses, treasury management strategy / practices for approval reviewing the same on a regular basis, and monitoring compliance.
   - ii) Submit treasury management strategy reports as required.
   - iii) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
   - iv) Review the performance of the treasury management function and promote best value reviews.
   - v) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
   - vi) Ensure the adequacy of internal audit, and liaising with external audit.
   - vii) Appoint external service providers in accordance with council standing orders.

b) The Lead Executive Director has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

c) The Lead Executive Director may delegate his power to borrow and invest to members of his staff, The Head of Corporate Services, Head of Financial and Customer. Services. If it is known that none of these officers will be available, the Lead Executive Director may authorise nominated Corporate Services Managers to make short term investment decisions. Senior Accountants responsible for treasury management must conduct all dealing transactions, or staff authorised by the Lead Executive Director to act as temporary cover for leave/sickness. All transactions must be authorised by a named officer above.

d) The Lead Executive Director will ensure that the Strategy is adhered to, and if not will bring the matter to the attention of elected Members as soon as possible.

e) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Lead Executive Director to be satisfied that the proposed transaction does not breach any statute, external regulation or the Council’s Financial Regulations

f) It is also the responsibility of the Lead Executive Director to ensure that the Council complies with the requirements of The Non Investment Products Code for principals and broking firms in the wholesale markets.

5.4.3 Senior Accountants responsible for treasury management

The responsibilities of this post will be:

a) Monitoring performance and market conditions on a day-to-day basis.
b) Recommend investments and borrowing transactions
c) Execution of transactions
d) Adherence to agreed policies and practices on a day-to-day basis.
e) Maintaining relationships with third parties and external service providers.
f) Identifying and recommending opportunities for improved practices.

5.4.4. Corporate Services Manager

The responsibilities of this post will be:

a) Line management of Senior Accountant responsible for treasury management.
b) Review and recommend investments and borrowing transactions.
c) Authorise CHAPS payments.
d) Adherence to agreed policies and practices on a day-to-day basis.
e) Maintaining relationships with third parties and external service providers.
f) Monitoring performance on a day-to-day basis.
g) Identifying and recommending opportunities for improved practices

5.4.5. Chief Legal Officer (in the role of monitoring officer)

The responsibilities of this post will be: -

a) Ensuring compliance by the Lead Executive Director with the treasury management strategy statement and treasury management practices and that these practices comply with the law.
b) Being satisfied that any proposal to vary treasury strategy or practice complies with law or any code of practice.
c) Giving advice to the Lead Executive Director when advice is sought.

5.4.6. Internal Audit

The responsibilities of Internal Audit will be:

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

5.5 ABSENCE COVER ARRANGEMENTS

In the absence of the senior accountant responsible for treasury management, another accountant in the Corporate Services section with treasury management training / experience will perform the daily cash flow tasks.

5.6 DEALING LIMITS

Persons authorised to deal are identified at 5.4. above and dealing limits are as the Scheme of Delegation for Officers.

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained and is shown in TMP11

5.8 POLICY ON BROKERS' SERVICES

It is Council's policy to divide business between brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

It is not Council policy to tape brokers' conversations.

5.10 DIRECT DEALING PRACTICES

The Council deals direct if appropriate contacts are established, and if it is advantageous to the Council.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

For each transaction a CHAPS form is completed and signed by an agreed bank signatory. The transfer is then processed by Cashiers, through the Financial Director banking system. This is to be completed by 3.30 pm on the same day.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker, credit ratings. This should be reviewed and authorised by either the Lead Executive Director, the Head of Corporate Services or the Head of Financial and Customer Services. A loans card is then completed and the details input into a spreadsheet.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 ANNUAL REPORTING REQUIREMENTS BEFORE THE START OF THE YEAR

a) The Treasury Management Strategy statement and practices sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval before the commencement of each financial year.

b) The Council must approve:

i) The overall borrowing limit;
ii) A 'short-term' borrowing limit;

iii) The maximum proportion of interest payable on borrowings that is subject to variable rates of interest**.**

6.2 REPORTING REQUIREMENTS DURING THE YEAR

a) A mid year review of the strategy statement
b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting

6.3 ANNUAL REPORTING REQUIREMENT AFTER THE YEAR END

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

a) Transactions executed and their revenue effects;
b) Report on risk implications of decisions taken and transactions executed;
c) Monitoring of compliance with approved policy, practices and statutory/ regulatory requirements;
d) Performance report;
e) Report on compliance with CIPFA Code recommendations.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

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

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA’s ‘Code of Best Practice and Guide for Treasury Management in the Public Services’ (the ‘CIPFA Code and Guide’), together with those of its specific recommendations that are relevant to this organisation’s treasury management activities.

7.3 SAMPLE BUDGETS / ACCOUNTS

The senior accountant responsible for treasury management will prepare an annual budget for the treasury management function, which will bring together all the costs involved in running the function, together with associated income.

7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

a) Reconciliation of loans interest and premiums paid to financial ledger by loan type.
b) Maturity analysis of loans outstanding.
c) Annual Treasury Report.
d) Calculation of Revenue Interest.

e) Analysis of accrued interest, (interest earned / due up to year end but not receivable/ payable until the new year) .

TMP8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

Dedicated Schools Grant – Monthly
Other Government grants - various
Council Tax - various
Payroll – various
Creditor payments - daily
Teachers Pensions - monthly
Income Tax – monthly
Loan interest – various
Precept payments - various
Leasing instalments - various

8.3 LISTING OF SOURCES OF INFORMATION

Estimated cash flow details are compiled using:

- Schedule of Payment of Revenue Support Grant and National Non-domestic rates; CLG income;
- Schedule of Payment of the Dedicated Schools grant. DCSF;
- Council Tax / Revenues payments dates and amounts;
- Notifications from the Business Support section of any significant grants expected during the year;
- Schedule of payroll payment dates supplied by the Employee services section; Finance Group, with an estimated amount based on the previous years payments. The actual amounts will be available from Cashiers a few days before payment is due;
- Loan repayments, spreadsheet within Business Support / Treasury Management folder;
- NNDR payments, Accounts Payable section, with an estimated amount based on the previous years payments;
- Details of precept payments, Business Support section;
- An estimated figure for creditor payments, based on previous patterns of expenditure. More accurate figures can be obtained two days before payment based on the Creditor BACs figure, and notification of any large cheques due, supplied by the Accounts Payable section.

The Council is currently implementing a new Electronic Ledger system which includes a cash flow forecast tool which should facilitate more accurate cash flow forecasting.

8.4 BANK STATEMENT PROCEDURES

Bank statements are received via a Financial Director File & loaded into Axis Income Management System (AIM). All transactions on the bank statement pass through a validation process which will then allocate them to the appropriate fund or general ledger code if the reference meets the validation requirements. All items that fail validation pass to exceptions and are allocated manually, once codes/remittance advices are received. Expenditure transactions are divided into BACS payments which are uploaded into our financial system via a file; payments by CHAPs, Direct Debits, standing orders and Imprest accounts are input by Accounts Payable.

8.5 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

8.6 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

a) The Accounts Receivable section gets a daily report of outstanding debtors and takes appropriate action regarding outstanding debt. Monthly reports are sent to the Head of Corporate Services.
b) The Accounts Payable section provides monthly statistics of invoices paid to the Head of Corporate Services as well as quarterly and annual reports.

8.7 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be paid into the Council's bank accounts. No deductions may be made from such money save to the extent that the Lead Executive Director may specifically authorise.

8.8 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

All prepayments must be authorised by the Lead Executive Director.

TMP9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not usually accept loans from individuals. All material loans are obtained from the PWLB, other local authorities or from authorised institutions under the Banking Act 1987: (the Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on www.fca.gov.uk).

9.2 METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list.

TMP10 TRAINING AND QUALIFICATIONS

10.1 STAFF QUALIFICATIONS

The daily treasury management function will be performed by a qualified accountant or a senior accountant (unqualified) holding a Certificate in International Treasury Management Public Finance, under supervision of a qualified accountant.

10.2 STAFF TRAINING

New staff will receive in-house on the job training before they commence their duties. Existing staff will attend treasury management seminars, at least annually, to keep up to date with changes in regulations and current practices. Additional staff training needs will be identified as part of the training needs analysis undertaken during Staff Appraisals.

10.3 THE LEAD EXECUTIVE DIRECTOR

The Lead Executive Director is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

10.4 MEMBER TRAINING

All members should have an appropriate level of training within a year of taking office. Members of the Audit Committee have received this and will be periodically updated or provided where membership changes. This will be carried out in-house in conjunction with the Council's Treasury Management advisors.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

a) **Banking services**

i) Name of supplier of service is the Co-operative Bank plc. The branch address is:

1st Floor
Norfolk House
84-86 Grey Street
Newcastle upon Tyne
NE1 6BZ
SORT Code: 08-90-06

ii) Initial contract commenced 1 April 2006.

iii) The Co-operative Bank plc have been awarded the contract for the new unitary authority commencing 1st April 2009 which runs for 5 years until 31st March 2014, the contract was extended to March 2016 in 2012. However this will not run to full term and is currently out to tender.

iv) Cost of service is variable depending on schedule of tariffs and volumes

v) Payments are paid quarterly in arrears

vi) Contact Name and address:

John Harrison
Manager Public Sector & Community Development
North East Business Centre
90 Grey Street
Newcastle upon Tyne
NE1 6BZ

b) **Money-broking and Custodian services**

Name of supplier of service:

i) Sterling International Brokers Ltd
10 Chiswell Street
London, EC1Y 4UQ

ii) ICAP Europe Ltd
2 Broadgate,
London, EC2M 7UR

iii) Tullet Prebon (UK) Limited
155 Bishopsgate,
London,EC2N 3DA

iv) Tradition (UK) Ltd
Beaufort House,
15 St Botolph Street,
London, EC3A 7QX

v) King and Shaxson Ltd
Candlewick
120 Cannon Street
London, EC4N 6AS

vi) Barclays Bank PLC
Barclays Stockbrokers,
Tay House,
300 Bath Street,
Glasgow, G2 4LH.

vii) Capita Asset Services – Treasury Solutions
17 - 19 Rochester Row
Westminster
London, SW1P 1QT

viii) BGC Brokers L.P.
One Churchill Place
London, E14 5RD

c) **Consultants'/advisers' services**

Treasury Consultancy Services

i) Name of supplier of service is
Capita Asset Services – Treasury Solutions
17 - 19 Rochester Row
Westminster
London
SW1P 1QT

Website: www.capitaassetservices.com

(The contract for this service was awarded to Butlers Treasury Consultants a division of ICAP Securities Ltd. with effect from 19th July 2010 for a period of four years. Sector bought out Butlers who changed their name to that of their parent company Capita in September 2013). This contract has been extended for two years to July 2016 at a total cost of £26,000.

d) **Leasing Consultancy Services**

Chrystal Consulting Ltd were awarded the contract for 3 years until 30 June 2014. This contract has been extended to June 2015

e) **External Fund Managers**

None at present.

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

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

TMP12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

Annual accounts
Annual Budget
4 Year Capital Plan
Treasury Management Policy
Treasury Management Strategy
Annual Treasury Report
Access to minutes at libraries