Agenda Item No: **6**

Wolverhampton City Council

Cabinet Meeting

25 February 2015

Report title	Treasury Management Strategy 2015/16
Decision designation	RED
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Key decision	Yes
In forward plan	Yes
Wards affected	All
Accountable director	Mark Taylor, Director of Finance
Originating service	Strategic Finance
Accountable employee(s)	Claire Nye — Chief Accountant Tel — 01902 550478 Email — Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board — 10 February 2015

Recommendation(s) for action or decision:

1. That Cabinet recommends that Council approves:

   (a) The authorised borrowing limit for 2015/16 as required under Section 3(1) of the Local Government Act 2003 be set at £1,003.5 million (PI 5, page 30).

   (b) The Treasury Management Strategy Statement 2015/16 as set out in appendix A to this report (pages 11 to 19).

   (c) The Annual Investment Strategy 2015/16 as set out in appendix B to this report (pages 20 to 28).

   (d) The Prudential and Treasury Management Indicators as set out in appendix C to this report (pages 29 to 32).

(e) The Annual Minimum Revenue Provision (MRP) Statement setting out the method used to calculate MRP for 2015/16 onwards as set out in appendix D to this report (pages 33 to 35).

(f) The method used to calculate MRP for 2014/15 as set out in the Annual Minimum Revenue Provision (MRP) Statement approved by Council on 17 December 2014 be amended to the method as set out in appendix D to this report (pages 33 to 35).

(g) The Treasury Management Policy Statement and Treasury Management Practices as set out in appendix F to this report (pages 37 to 89).

(h) That authority continues to be delegated to the Director of Finance to amend the Treasury Management Policy and Practices and any corresponding changes required to the Treasury Management Strategy, the Prudential and Treasury Management Indicators, the Investment Strategy and the Annual MRP Statement to ensure they remain aligned. Any amendments will be reported to the Cabinet Member for Resources and Cabinet (Resources) Panel as appropriate.

2. That Cabinet recommends that Council notes:

(a) That as a result of the revised MRP calculations, the MRP charge for financial years 2014/15 to 2017/18 will be zero increasing to £9.7 million in 2018/19, subject to annual review (paragraph 2.11).

(b) That Cabinet (Resources) Panel and Council will receive regular Treasury Management reports during 2015/16 on performance against the key targets and Prudential and Treasury Management Indicators in the Treasury Management Strategy and Investment Strategy as set out in paragraph 2.8 and appendices B and C to this report.

(c) That legal advice has been sought from leading Counsel on the revised MRP policy and the conclusion was that the proposal is a permissible, reasonable and lawful exercise.

(d) That the Director of Finance (Section 151 Officer) considers that this revised approach to MRP is prudent and therefore complies with the Council's statutory duties in respect of MRP.

(e) That the Council's external auditor has referred the revised MRP policy to the Audit Commission's Technical Team for an opinion and at the time of writing this report a response is awaited.

1.0 Purpose

1.1 This report sets out the Council's Treasury Management Strategy for 2015/16 for approval by full Council. The strategy incorporates six elements, which are detailed in separate documents, appended to this report. These documents are the Treasury Management Strategy, the Annual Investment Strategy, the Prudential and Treasury Management Indicators, Minimum Revenue Provision (MRP) Statement, the Disclosure for Certainty Rate and the Treasury Management Policy Statement and Practices.

2.0 Background

The Revised CIPFA Code of Practice on Treasury Management (revised November 2011)

2.1 The Council has previously adopted the 2002 and 2009 CIPFA Codes of Practice on Treasury Management and fully complied with their guidance. CIPFA issued a revised code in 2011 following developments resulting from the Localism Act 2011, including housing finance reform and the introduction of the General Power of Competence. It is a requirement of the Code that the Council should formally adopt the Code.

2.2 The Code seeks to satisfy nine main purposes:

1. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities and thereby to add to their credibility in the public eye.

2. To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.

3. To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.

4. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

5. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".

6. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.

7. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.

8. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.

9. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

2.3 The Code also identifies three key principles:

1. That the Council puts in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

2. To note that these policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and the responsibility for these lie clearly within the Council. The Council's appetite for risk should form part of its annual strategy including any use of financial instruments for the prudent management of those risks and should ensure that priority is given to security and liquidity when investing funds.

3. To acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools to employ in support of the Council's business and service objectives; and that within the context of effective risk management, its treasury management policies and practices reflect this.

2.4 In order to achieve the above, the Council will adopt the following four clauses:

1. The Council will create and maintain, as the cornerstones for effective treasury management:
    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

2. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

3. Full Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet (Resources) Panel, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council nominates the Confident Capable Council Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.5 The strategy statements appended to this report have been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by full Council and there will also be a mid-year report to full Council. In addition there will be quarterly monitoring reports and regular review by Councillors in both executive and scrutiny functions. The aim of these reporting arrangements is 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 with regard to delegation and reporting.

2.6 This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code.

Area of Responsibility	Council / Committee / Employee	Frequency of Update and Approval
Treasury Management Policy Statement and Treasury Management Practices	Director of Finance	As required
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet (Feb) & Full Council (March)	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report	Full Council	Mid-year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Cabinet and Full Council	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Cabinet (Resources) Panel	Quarterly
Scrutiny and review of treasury management strategy	Audit / Scrutiny Committee	Annually before the start of the year
Scrutiny and review of treasury management performance	Audit / Scrutiny Committee	Quarterly

2.7 **The treasury management role of the Director of Finance**

The following are the key duties of the Director of Finance under the Code:

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

2.8 **Treasury Management Strategy (appendix A)**

Attached at appendix A is the recommended Treasury Management Strategy for 2015/16. This has been prepared in accordance with the CIPFA Treasury Management Code, and fully reflects the requirements of the Code. It summarises in strategic terms the approach the Council will take in performing its treasury management activities during 2015/16. It also highlights some of the key current risks and issues relating to treasury management that will be monitored over the course of the year.

2.9 **Annual Investment Strategy (appendix B)**

The recommended Annual Investment Strategy for 2015/16 is attached at appendix B. This builds on the Treasury Management Strategy by focussing in greater detail on investment activities. It sets out in considerable detail the conditions under which the Council will place investments. This represents the Council's approach to managing a number of risks inherently associated with investment. These are discussed in greater detail in the Strategy itself.

2.10 **Prudential and Treasury Management Indicators (appendix C)**

Attached at appendix C are the recommended prudential indicators for the Council for 2015/16. The Prudential Code requires authorities to set and observe a range of prudential and treasury management indicators, and to keep these under review. The indicators set out in the appendix are the minimum required by the Code and associated guidance.

2.11 **MRP Statement (appendix D)**

The Council adopted the equal instalment method of calculating MRP from 1 April 2008, but revised its approach to calculating MRP on an annuity basis from 1 April 2014 with the agreement of its auditors. It was considered that this revision was both more prudent and fairer than the previous method, as the annuity method better reflects the flow of benefits from assets, as benefits generally increase in later years and also because the annuity method better reflects the time value of money.

Since making this revision an exercise has been undertaken to establish how much MRP would have been charged to the revenue account had the annuity basis been adopted from 1 April 2008. It has been established that around £37.0 million less MRP would have been charged between 1 April 2008 and 31 March 2014, had the annuity basis been adopted during this period.

The Council's Section 151 Officer therefore considers that the Council has been overly prudent in setting MRP during this period. As a result, Council are asked to approve the inclusion of an adjustment within the MRP policy for 2014/15 and subsequent years to recognise the over-prudent sum of around £37.0 million. It is proposed that MRP will continue to be calculated on an annuity basis, but as if the annuity basis had been applied from 1 April 2008, so that it will be reduced by the adjustment, anticipated to cover a period of five financial years.

In order to ensure that MRP remains prudent the Section 151 Officer is proposing that the following conditions should be added to the new policy:

- The total MRP after applying this new adjustment will not be less than zero in any financial year; this serves to freeze the cumulative total of MRP at the 2013/14 level until such time as this sum matches the cumulative total of MRP calculated using the annuity method from 1 April 2008. This condition will ensure that there is no claw back of MRP from previous financial years, i.e. there will be no "negative MRP".

- The cumulative total of this new adjustment will never exceed the amount of the calculated over-prudent sum of around £37.0 million; and

- The use of the adjustment will be reviewed on an annual basis when drafting the annual Treasury Management Strategy and MRP Policy (or more frequently if there is a mid-year revision for any reason, including the prudence of the adjustment itself). It may therefore be the case that the cumulative total of the new adjustment will never reach the level of the calculated over-prudent sum of around £37.0 million, i.e. if at any point it ceases to appear prudent to continue it.

For the avoidance of doubt, the policy does not seek to write back voluntary revenue provision (VRP) made in the period from 1 April 2008 to 1 April 2014. It is proposing that the amount of the MRP calculated using the annuity method in future financial years should be adjusted to bring the amount of the overall provision recognised in the balance sheet into line with the amount that has been determined would be prudent provision based on the profile of asset lives, the pattern of capital expenditure over the period from 1 April 2008 and the appropriate interest rates. The Council's Section 151 Officer considers that this approach is prudent, and that it therefore complies with the Council's statutory duties in respect of MRP, because:

- The cumulative amount of MRP at the end of the useful life of all assets will be exactly the same under this methodology as it would have been had the straight line approach or the annuity approach been adopted from 1 April 2008.

- The time value of money and the likely increase in benefits in later years mean that this approach is fairer, as the Council's budget has been bearing a higher burden of MRP than necessary or than would have paid under the annuity basis.

Legal advice has been sought from leading Counsel whose view was "it seems to me that the proposal here is a permissible, reasonable and lawful exercise". The Council's external auditor has referred the change in policy to the Audit Commission's Technical Team for an opinion and at the time of writing this report a response is awaited.

The recommended MRP statement for 2015/16 is attached at appendix D.

2.12 **Certainty Rate (appendix E)**

As part of the Budget 2012 announced by Government, a new 'certainty rate' was introduced from 1 November 2012. This rate enables eligible councils to access cheaper borrowing rates of 20 basis points below the standard rate across all loan types and maturities from the Public Works Loan Board. In exchange for the reduced rate, councils must complete an annual return to the Department for Communities and Local Government detailing their budgeted plans for capital expenditure and borrowing requirements. Appendix E details the information that will be required to enable the Council to submit a return for 2015/16.

2.13 **Treasury Management Policy Statement and Practices (appendix F)**

Attached at appendix F is an updated version of the Council's treasury management policy statement and practices as required by the CIPFA Code of Practice on Treasury Management.

2.14 **Allocation of net interest payable**

As a result of the introduction of the Housing Revenue Account (HRA) self-financing regime in 2012/13, the Council was required to determine a method of splitting its interest costs between the HRA and the General Fund. In so doing, it was required to determine a method that in its view was fair and reasonable. The method of splitting interest is unchanged from that used in 2014/15 (the inferred net cash balance of each fund).

3.0 Financial implications

3.1 These are detailed within the report.

[SH/13022015/F]

4.0 Legal implications

4.1 The Council's Treasury Management activity must be carried out in accordance with the requirements of the Local Government Act 2003. In addition the Local Government and Housing Act 1989 sets out requirements for local authorities in respect of capital controls, borrowing and credit arrangements. The Council is also required to comply with the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

[KO/16022015/N]

5.0 Equalities implications

5.1 This report has no equalities implications.

6.0 Environmental implications

6.1 This report has no environmental implications.

7.0 Human resources implications

7.1 This report has no human resources implications.

8.0 Corporate landlord implications

8.1 This report has no corporate landlord implications.

9.0 Schedule of background papers

2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19, Report to Cabinet, 25 February 2015

Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy, Report to Cabinet, 25 February 2015

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Treasury Management Strategy Statement 2015/16

1.0 Introduction

1.1 The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice, and to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as appendix B of this report), which sets out the Council's policies for managing its investments and in particular for giving priority to the security and liquidity of those investments.

1.3 The recommended strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the Director of Finance's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

1.4 **Balanced budget requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority, when calculating its budget requirement for the forthcoming financial year, to include the revenue costs that result from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in interest charges, MRP and other costs associated with borrowing to finance capital expenditure, as well as any increases in running costs from new capital projects, are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

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1.5 Training

The CIPFA Code requires the Director of Finance to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. The training needs of councillors and treasury management employees are periodically reviewed to ensure that they have the appropriate level of knowledge for their roles in respect of treasury management.

1.6 Treasury management consultants

The Council uses Capita Asset Services as its external treasury management advisors

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.

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

2.0 Treasury limits for 2015/16 to 2017/18

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council tax and Council housing rent levels is ‘acceptable’.

2.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of financing such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in appendix C of this report.

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3.0 Current portfolio position

3.1 The Council's treasury portfolio estimated position at 31 March 2015 will be made up as follows:

		Principal £000	Average Rate %
Total Borrowing			
Fixed rate funding	PWLB/Local Authorities	531,071	3.5142
Variable rate funding	Market	103,800	4.3832
Gross Borrowing		634,871	3.6717
Total Investments		35,000	0.4413

4.0 Borrowing requirement

4.1 The Council's borrowing requirement is as follows:

	2014/15 Forecast £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
New borrowing	71,714	103,832	27,746	11,478
MRP and HRA voluntary debt repayment	(18,911)	(15,729)	(16,781)	(18,940)
Replacement borrowing	85,200	101,805	76,605	123,000
Total Borrowing Requirement	**138,003**	**189,908**	**87,570**	**115,538**

5.0 Prospects for interest rates

5.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. A more detailed interest rate view is shown on page 27. The following gives Capita's central view.

Capita Bank Rate forecast for financial year ends (March)

- 2014/15 0.50%
- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

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5.2 UK GDP growth surged during 2013 and the first half of 2014. During the second half of 2014, it has cooled somewhat but still remained strong by UK standards. Growth is likely to strengthen marginally in 2015 and 2016 under the stimulative effect of the fall in oil prices. There still needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation had only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 0.5% in December, the lowest rate since May 2000 and it could even turn negative in the first half of 2015; this will further increase consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

5.3 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3, followed by a cooler 2.6% in Q4 (overall 2.4% for 2014 as a whole). 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 the end of 2015.

5.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 brought to power a coalition which is strongly anti EU imposed austerity. However, if this should eventually result in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to gauge;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation and the Middle East, have led to a resurgence of those concerns as risks increase that it could be heading into a prolonged period of deflation and very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years

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that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been highly volatile during 2014 and early 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The opening weeks of 2015 saw gilt yields dip to historically phenomenally low levels after inflation plunged, a flight to quality as a result of the Greek situation and the start of a huge programme of quantitative easing (purchase of EZ government debt), by the ECB in January 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;

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

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6.0 Borrowing strategy

6.1 Borrowing rates

The Capita forecast for the PWLB new borrowing rate is as follows:

Month	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
Sept 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
Sept 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
Sept 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

More detailed forecasts are included on page 27.

When undertaking any new borrowing the Director of Finance will give consideration to the following to ensure the best deal is obtained for the Council:

1. Internal / external borrowing.

2. Temporary borrowing (less than 1 year).

3. Variable / fixed rate.

4. Short / long term borrowing.

5. PWLB / market debt.

When considering the above, the balance and spread of debt in the Council's portfolio will be taken into account along with the financial implications for the medium term financial strategy.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financial Requirement), has not been fully funded with loan debt as cash arising from the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

6.2 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Council employees, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate of US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6.3 **External versus internal borrowing**

The general aim of this treasury management strategy is to maintain cash balances at a reduced level, therefore keeping to a minimum the credit risk incurred by holding investments. Measures taken over the last few years have already reduced substantially the level of credit risk and the difference between borrowing rates and investment rates has been carefully considered to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

The next financial year is expected to be another one of historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

Over the next year, investment rates are expected to be below long term borrowing rates, in which case, the Council can minimise its overall net treasury costs in the short term by continuing to avoid new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing).

However, short term savings by avoiding new long term external borrowing in 2015/16 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

The Council continually examines the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new and repayment rates, has meant that large premiums would be incurred by such action. This situation will continue to be monitored in case the differential is narrowed by the PWLB at some future date.

6.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue costs created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, having regard to the controls in place to minimise such risks.

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7.0 Debt rescheduling

7.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds in using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lender Option Borrowers Option) loans, and other market loans, as the source of replacement financing.

7.2 As short term borrowing rates will be considerably cheaper than longer term rates, there may be some potential or residual 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 size of the premiums incurred, their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

7.3 Consideration will continue to be given to identifying any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

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 strategy outlined in paragraph 6 above, and
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

7.4 All rescheduling will be reported to the Cabinet (Resources) Panel, at the earliest meeting following its action.

8.0 Municipal Bond Agency

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

APPENDIX B

Annual Investment Strategy 2015/16

1.0 Annual Investment Strategy

1.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and/or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of Capita's future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that Capita have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, Capita will continue to utilise CDS prices as an overlay to ratings in the new methodology.

1.2 Investment policy

The Council will have regard to the Department for Communities and Local Government's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

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

Investment instruments identified for use in the financial year are listed on pages 23 to 25 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

1.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The table below details Capita's recommendations of bands and durations along with the more prudent parameters that the Council will apply:

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	Capita	Wolverhampton
Purple	2 years	1 year
Orange	1 year	6 months
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year	3 months
Red	6 months	3 months
Green	100 days	50 days
No Colour	Not to be used	Not to be used

This list will be reviewed on any changes to the methodology used by Capita and the Council may revert back to using Capita's recommended durations if or when investment balances are at higher levels and longer deposits are possible without significantly increased risk to liquidity.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1+, Long Term rating AA-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored each time the Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. A severe downgrade may prompt the Director of Finance to instruct treasury management employees to take steps to withdraw any investment considered to be at risk. The potential penalties for such an action would need to be assessed.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this bought-in 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.

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1.4 **Country limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report is shown below. This list will be amended by employees should ratings change in accordance with this policy.

Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Hong Kong
- U.K.

1.5 **Specified investments:** All such investments will be sterling denominated, with **maturities up to a maximum of one year**, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	Government backed
Money Market Funds	AAAmmf / Aaa-mf
Term deposits – UK government	Government backed
Term deposits – Local Authorities	High Security
Term deposits – Banks & Building Societies	Short-term F1+, Long-term AA-

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Since the ‘credit crunch’ crisis there have been a number of developments which have been given separate consideration and approval for use: -

Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1: in other words, on both counts, they have the highest ratings possible.

The Council applies individual limits on investments with banks within each group of nationalised banks and a limit on the group overall.

Blanket guarantees on all deposits. Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee. The Council will only invest in banks where their individual and sovereign rating meets with our minimum criteria.

UK banking system support package (implicit guarantee). The UK Government has not given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by initially supporting eight named banks with a £500bn support package:

- Santander (previously Abbey)
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government, mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28 February 2010. The banks which have used this explicit guarantee are as follows:

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- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec Bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

The Council relies on the credit ratings of the individual banks and does not invest with these banks on the strength of the support package alone.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be thoroughly reviewed before they are undertaken.

1.6 **Non-specified investments:** A maximum of £35.0 million will be held in aggregate in non-specified investments.

	Minimum Credit Criteria	Max of Total Investments	Max Maturity Period
Term deposits – UK government (with maturities in excess of 1 year)	Government Backed	£10.0 million	5 years
Term deposits – other Local Authorities (with maturities in excess of 1 year)	High Security	£10.0 million per LA	5 years
Term deposits – banks (with maturities in excess of 1 year)	Short term F1+ Long term AA-	£10.0 million per bank	5 years

1.7 **Investment strategy**

All of the Council's funds are managed in-house. Based on its cashflow forecasts, the Council anticipates its fund balances in 2015/16 to range between £1.0 million and £80.0 million. The Council will hold investments for up to a maximum of 12 months, but has determined that a maximum of £35.0 million could be prudently committed to longer term investments of up to 5 years should the Director of Finance decide it is appropriate to.

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Interest rate outlook: Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Capita's Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile, within the risk parameters set by this Council.

For 2015/16 the Council will budget for an investment return of 0.60% on investments placed during the financial year.

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

1.8 **End of year investment report**

At the end of the financial year, a report will be submitted to the Cabinet and full Council on the Council's investment activity as part of its Annual Treasury Report.

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2.0 Interest rate forecasts

2.1 The table below has been provided by Capita Asset Services and shows a more detailed interest rate view along with the view of Capital Economics (an independent forecasting consultancy).

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	1.80%	2.05%	2.30%	2.55%	2.80%	2.80%	3.05%	3.05%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.30%	2.55%	2.55%	2.80%	3.05%	3.05%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	2.95%	3.15%	3.15%	3.50%	3.90%	3.90%	4.15%	4.15%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.10%	3.30%	3.30%	3.60%	4.00%	4.00%	4.30%	4.30%	-	-	-	-	-
Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012													

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Wolverhampton City Council
Specified Investments Lending List

Institution	Country (Sovereign Rating)	Limit £000	Term Limit
Australia & New Zealand Banking Group Ltd	Australia (AAA)	10,000	6 mths
Bank Netherlandse Gemeenten	Netherlands (AAA)	20,000	12 mths
Bank of Montreal	Canada (AAA)	10,000	6 mths
Bank of New York Mellon, The	USA (AAA)	10,000	6 mths
Bank of Nova Scotia	Canada (AAA)	10,000	6 mths
Canadian Imperial Bank of Commerce	Canada (AAA)	10,000	6 mths
Clearstream Banking	Luxembourg (AAA)	20,000	12 mths
Commonwealth Bank of Australia	Australia (AAA)	10,000	6 mths
Cooperatieve Centrale Raiffeisen - Boerenleenbank BA	Netherlands (AAA)	5,000	3 mths
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
Hong Kong and Shanghai Banking Corporation Ltd	Hong Kong (AA+)	10,000	6 mths
HSBC Bank plc	UK (AA+)	10,000	6 mths
HSBC Bank USA	USA (AAA)	10,000	6 mths
National Australia Bank Ltd	Australia (AAA)	10,000	6 mths
Nordea Bank AB	Sweden (AAA)	10,000	6 mths
Nordea Bank Finland plc	Finland (AA+)	10,000	6 mths
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	10,000	6 mths
Royal Bank of Canada	Canada (AAA)	10,000	6 mths
Standard Chartered Bank	UK (AA+)	10,000	6 mths
Svenska Handelsbanken AB	Sweden (AAA)	10,000	6 mths
Toronto Dominion Bank	Canada (AAA)	10,000	6 mths
United Overseas Bank Ltd	Singapore (AAA)	10,000	6 mths
Wells Fargo Bank NA	USA (AAA)	10,000	6 mths
Westpac Banking Corporation	Australia (AAA)	10,000	6 mths
Nationalised Banks			
Lloyds Banking Group plc			
Bank of Scotland plc	UK (AA+)	10,000	3 mths
Lloyds Bank plc	UK (AA+)	10,000	3 mths
Royal Bank of Scotland Group plc			
National Westminster Bank plc	UK (AA+)	10,000	3 mths
The Royal Bank of Scotland plc	UK (AA+)	10,000	3 mths
Money Market Funds	**Fund Rating**		
Invesco STIC Account	Fitch AAAmmf	20,000	Instant Access
Ignis Sterling Liquidity Fund	Fitch AAAmmf	20,000	Instant Access
Federated Short-Term Sterling Prime Fund	Fitch AAAmmf	20,000	Instant Access
Black Rock Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access
Scottish Widows Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access

Non-rated Institutions

County Councils, London Boroughs, Metropolitan Districts and Unitary Authorities - limits £6m and 12 months. Shire District Councils, Fire and Civil Defence Authorities, Passenger Transport Authorities and Police Authorities - limits £3m and 12 months.

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

Prudential Indicators (PI)

PI for Affordability - These indicators are used to ensure the total capital investment of the council is within a sustainable limit and the impact of these decisions are considered with regard to acceptable council tax and housing rent levels.

PI 1 - Estimates and Actual ratio of financing costs to net revenue stream.
This represents the cost of financing capital expenditure as a % of net revenue for both the General Fund and HRA.

	As at 25 February 2015			
	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
General Fund	4.5%	6.1%	8.2%	8.9%
HRA	11.0%	11.3%	13.2%	13.0%

PI 2 - Estimates of the incremental impact of capital investment decisions on the council tax and housing rents.
The council could consider different options for its capital investment programme in relation to their different impact on the council tax and housing rents. Negatives reflect a reduction in total capital expenditure.

	As at 25 February 2015			
	2014/15 Forecast £	2015/16 Forecast £	2016/17 Forecast £	2017/18 Forecast £
For Band D council tax				
Implications of the Capital Programme for Year	104.08	202.52	235.55	239.70
Financial Year Impact	104.08	202.52	235.55	239.70
For average weekly housing rents				
Implications of the Capital Programme for Year	3.11	6.21	6.69	7.38
Financial Year Impact	3.11	6.21	6.69	7.38
For Band D council tax				
Implications of the Capital Programme for Year	0.00	0.00	0.00	0.00
Marginal Impact to Quarter Three	0.00	0.00	0.00	0.00
For average weekly housing rents				
Implications of the Capital Programme for Year	0.00	0.00	0.00	0.00
Marginal Impact to Quarter Three	0.00	0.00	0.00	0.00

PI 3 - Estimates and actual capital expenditure.
Full details of capital expenditure plans and funding can be found in the Capital Quarter Three Monitoring 2014/15 report.

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
General Fund	91,621	78,032	39,093	9,305
HRA	73,035	62,501	29,057	30,326
	164,656	140,533	68,150	39,631

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

PI 4 - Estimates and actual capital financing requirement General Fund and HRA.
The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
General Fund	535,427	598,167	617,974	618,602
HRA	321,232	344,687	333,959	323,772
	856,659	942,854	951,933	942,374

PI 5 - Authorised limit for external debt.
These limits apply to the total external debt gross of investments and separately identify borrowing from other long term liabilities such as finance leases including Private Finance Initiatives (PFI).

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	634,871	906,895	915,620	923,031
Other Long Term Liabilities	98,465	96,557	94,671	92,574
Total	733,336	1,003,452	1,010,291	1,015,605

PI 6 - Operational boundary for external debt.
This is based on the same estimates as the authorised limit but directly reflects the Director of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included.

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	634,871	880,937	908,683	920,161
Other Long Term Liabilities	98,465	96,557	94,671	92,574
Total	733,336	977,494	1,003,354	1,012,735

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

PI 7 - HRA limit on indebtedness.
This maximum debt limit has been set by Government as part of the self-financing regime and is compared to the HRA capital financing requirement.

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
HRA Debt Limit	356,770	356,770	356,770	356,770
HRA Capital Financing Requirement	321,232	344,687	333,959	323,772
Headroom	35,538	12,083	22,811	32,998

PI for Prudence - Ensuring that external debt is sustainable and compliance with good professional practice are essential features of prudence.

PI 8a - Gross debt and the capital financing requirement.
"In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years". This replaced PI 8 net debt and the capital financing requirement from 2013/14 onwards.

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	951,933	951,933	951,933	951,933
Gross Debt	733,336	835,260	861,120	870,501
Capital Financing Requirement Greater than Gross Debt	Yes	Yes	Yes	Yes

PI 9 - Has the local authority adopted the CIPFA Treasury Management in the Public Services: Code of Practice. Yes

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

Treasury Management Indicators (TMI)

TMI 1 - Upper limits on fixed interest and variable interest exposures.
These relate to the levels of net outstanding principal sums exposed to fixed and variable interest rates.

	As at 25 February 2015			
	2014/15 Forecast	2015/16 Limit	2016/17 Limit	2017/18 Limit
Upper limit for fixed rate	84%	100%	100%	100%
Upper limit for variable rate	16%	20%	20%	20%

TMI 2 - Upper and lower limits to the maturity structure of its borrowing.
These limits relate to the % of fixed rate debt maturing.

	As at 25 February 2015		
	Upper Limit	Lower Limit	March 2015 Forecast
Under 12 months	25%	0%	16.78%
12 months and within 24 months	25%	0%	4.86%
24 months and within 5 years	40%	0%	13.34%
5 years and within 10 years	50%	0%	3.16%
10 years and above	90%	50%	61.86%

TMI 3 - Upper limits to the total of principal sums invested longer than 364 days.
This details the maximum amount which can be invested for up to 5 years (as per paragraph 1.6 of the Annual Investment Strategy).

	As at 25 February 2015			
	2014/15 Forecast £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Upper limit for more than 364 days	35,000	35,000	35,000	35,000

APPENDIX D

Annual MRP Statement 2015/16

Minimum Revenue Provision – an introduction

1. What is Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual charge known as Minimum Revenue Provision (MRP), which is determined by the Council under guidance.

2. Statutory duty

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

3. Government guidance

Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate its MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

APPENDIX D

4. Timing

This statement shall take effect from 1 April 2014 and shall take precedence over any statements previously approved.

5. Calculation

MRP shall be calculated by adding together the amount calculated using the method as stated below.

Method

To be used for all capital expenditure taking into account only capital expenditure and financing decisions, and the classification of fixed assets, reflected in the Council's accounts for the preceding year.

With the variations set out below, MRP will be calculated, on an individual fixed asset basis (unless they are land or community assets (no depreciation), where it is capitalised under statute/direction (equal pay, refcus etc.) or when one grouped "asset" is created for MRP calculation purposes for each category for individual years), in accordance with the annuity method whereby MRP for each year will be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at the specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life.

The specified rate of interest will be the average interest rate of the Council's debt as at the end of the year preceding the first year in which the annuity rate is to be applied. Where the interest rate on debt is variable the rate to be used in calculating the average shall be the interest rate on the debt at 31 March of the year for which the average is being calculated.

MRP will thus be calculated in accordance with the following formula:

PPMT (A,B,C,D-E) + F - G

Where

PPMT is the PPMT financial function in Microsoft Excel 2010

A is the specified interest rate

B is the number of years (including the current year) for which MRP has been charged on an annuity basis

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C is the useful economic life of the asset as at the start of the year for which MRP is first charged on an annuity basis. C shall be equal to the useful life of the fixed asset in question, as estimated by the Council. For assets with a useful life of more than 99 years, C shall equal 99. C shall not be varied for changes in the useful life of the asset unless the Council considers that special circumstances apply that would mean that a change would result in MRP being more reasonably calculated on a prudent basis; for example the useful life of a particular asset (as assessed for depreciation purposes) could change so dramatically that continued use of the option would no longer be supportable as prudent. For example, a property could be sold only a short time into its originally estimated useful life.

D is the total need to borrow for capital purposes (resulting from capital expenditure).

E is the aggregate value of any anticipated future capital receipts that are an integral part of the capital scheme in question. E shall be reviewed each year on performing the calculation, and amended if necessary.

F is an amount determined by the Section 151 Officer. The cumulative total of F, taken across all past and current years, shall never be less than zero.

G is an adjustment arising where the Section 151 Officer considers that the previous method of calculating MRP has been overly prudent. An adjustment can be made (G) to reverse the overly prudent sum; the following conditions apply to this adjustment:

(a) The total MRP after applying this new adjustment (G) will not be less than zero in any financial year;
(b) The cumulative total of this new adjustment (G) will never exceed the amount of the calculated overly prudent sum.
(c) The use of the new adjustment will be reviewed on an annual basis or more frequently if there is a mid-year revision for any reason.

The Method shall be varied in the following circumstances:

(a) For non-operational assets, for which no charge will be made.

(b) For expenditure on fixed assets that are not or would not be classed as fixed assets of the Council in accordance with proper accounting practice, for which C shall initially be equal to the estimated remaining useful life of the fixed asset in question.

(c) For expenditure capitalised under direction, for which C shall initially equal 20, and shall not be reviewed or amended.

APPENDIX E

Disclosure for Certainty Rate

Certainty Rate
This table details the information that is required to enable the Council to submit a return for 2015/16.

	As at 25 February 2015			
	2014/15 Forecast £000	**2015/16 Forecast £000**	**2016/17 Forecast £000**	**2017/18 Forecast £000**
Net Borrowing Requirement:				
Borrowing to Finance approved Capital Expenditure	71,714	103,832	27,746	11,478
Existing Maturity Loans to be Replaced During the Year	85,200	101,805	76,605	123,000
Less:				
Minimum Revenue Provision for Debt Repayment	0	0	0	0
Voluntary Debt Repayment	(18,911)	(15,729)	(16,781)	(18,940)
	(18,911)	(15,729)	(16,781)	(18,940)
Loans Replaced Less Debt Repayment	66,289	86,076	59,824	104,060
Net Advance Requirement	138,003	189,908	87,570	115,538

APPENDIX F

Treasury Management Policy Statement
Treasury Management Practices

February 2015

1.0 Introduction

1.1 The Council has previously adopted the 2002 and 2009 CIPFA Codes of Practice on Treasury Management and fully complied with their guidance. CIPFA issued a revised code in 2011 following developments resulting from the Localism Act 2011, including housing finance reform and the introduction of the General Power of Competence and the Council now complies with this revised code. The Code seeks to satisfy nine main purposes:

1. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities and thereby to add to their credibility in the public eye.

2. To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.

3. To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.

4. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

5. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".

6. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.

7. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.

8. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.

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9. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

1.2 The approved activities cover borrowing arrangements for funding capital expenditure, debt repayment and rescheduling, managing cash flow and investment of surplus balances and monitoring the underlying risks associated with the Authority's activities.

1.3 Arrangements made for the control and operation of bank accounts operated by schools come within this definition but day-to-day management of funds is the responsibility of the Head Teachers and the Governors under arrangements for the local management of schools. Banking arrangements for schools with their own cheque accounts are closely monitored by the Director of Finance.

1.4 Management of the West Midlands Pension Fund is not included as part of Wolverhampton Council's treasury management activities but similar arrangements have been adopted by the Pension Fund Investments Division.

1.5 Subject to the above, the Council's cash is aggregated for the purposes of treasury management and is under the control of the Director of Finance in accordance with Section 151 of the Local Government Act 1972. The executive control and administration of financial policy is under the direction of the Cabinet (Resources) Panel.

1.6 All external investments of surplus internal balances are restricted to authorised investments in accordance with the Local Authorities (Capital Finance) (Approved Investments) Regulations 1990 as amended. The Director of Finance is responsible for making any investments, subject to the guidelines agreed by the Council or subsequently amended by the Cabinet (Resources) Panel.

2.0 Adoption of the code

2.1 The revised 2011 CIPFA Code identifies three key principles:

Key Principle 1

The Council puts in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

Key Principle 2

To note that these policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and the responsibility for these lie clearly within the Council. The Council's appetite for risk should form part of its annual strategy including any use of financial instruments for the prudent management of those risks and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3

To acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools to employ in support of the Council's business and service objectives; and that within the context of effective risk management, its treasury management policies and practices reflect this.

2.2. In order to achieve the above, the Council will adopt the following four clauses:

(1) The Council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

(2) Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

(3) Full Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet (Resources) Panel, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

(4) The Council nominates Confident, Capable Council Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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3.0 Treasury Management Policy Statement

3.1 The Council's treasury management policy statement defines the policies and objectives of its treasury management activities, as follows:

(1) Treasury management activities are defined 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."

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

(3) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4.0 Treasury Management Practices (TMPs) – Main principles

4.1 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The main principles are below with more detailed explanations in the attached schedules; these follow the CIPFA Code and have been suitably amended where necessary to reflect the Council's particular needs and circumstances.

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4.2 TMP 1 – Risk management

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Schedule 1 to this document.

[1] Credit and counterparty risk management

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

[2] Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives.

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

[3] Interest rate risk management

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

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

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

[4] Exchange rate risk management

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

[5] Refinancing risk management

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

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

[6] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future 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 organisation.

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[7] Fraud, error and corruption, and contingency management

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

[8] Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

4.3 **TMP 2 – Performance measurement**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in Schedule 2 to this document.

4.4 **TMP 3 – Decision-making and analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reach those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in Schedule 3 to this document.

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4.5 **TMP 4 – Approved instruments, methods and techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 4 to this document, and within the limits and parameters defined in TMP1 Risk management.

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

4.6 **TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP 6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.
The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Director of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in Schedule 5 to this document.

The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in Schedule 5 to this document.

The delegations to the Director of Finance in respect of treasury management are set out in Schedule 5 to this document. The Director of Finance will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and CIPFA's the Standard of Professional Practice on Treasury Management.

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4.7 TMP 6 – Reporting requirements and management information arrangements

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

As a minimum, Council will receive:

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

Cabinet (Resources) Panel will receive regular monitoring reports on treasury management activities and risks.

Confident, Capable Council Scrutiny Panel will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in Schedule 6 to this document.

4.8 TMP 7 – Budgeting, accounting and audit arrangements

The Director of Finance will prepare, and Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP 1 Risk management, TMP 2 Performance measurement, and TMP 4 Approved instruments, methods and techniques. The Director of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements.

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The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

4.9 **TMP 8 – Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 8 of this document.

4.10 **TMP 9 – Money laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in Schedule 9 to this document.

4.11 **TMP 10 – Training and qualifications**

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

The Director of Finance will ensure that councillors tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

The present arrangements are detailed in Schedule 10 to this document.

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4.12 TMP 11 – Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance, and details of the current arrangements are set out in Schedule 11 to this document.

4.13 TMP 12 – Corporate governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in Schedule 12 to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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Schedule 1 : TMP 1 – Risk management

1.1 Creditworthiness policy

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The table below details Capita's recommendations of bands and durations along with the more prudent parameters that the Council will apply.

	Capita	Wolverhampton
Purple	2 years	1 year
Orange	1 year	6 months
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year	3 months
Red	6 months	3 months
Green	100 days	50 days
No Colour	Not to be used	Not to be used

This list will be reviewed on any changes to the methodology used by Capita and the Council may revert back to using Capita's recommended durations if or when investment balances are at higher levels and longer deposits are possible without significantly increased risk to liquidity.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1+, Long Term rating AA-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored each time the Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. A severe downgrade may prompt the Director of Finance to instruct treasury management employees to take steps to withdraw any investment considered to be at risk. The potential penalties for such an action would need to be assessed.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this bought-in 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.

Investment Strategy

The Council will have regard to the CLG's Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

This Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heading **Specified investments** and **Non-specified investments**. These are listed below:

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Local Government Investments (England)

Specified investments

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes. Long term AA-, Short term F1+	No	In-house	1 year
Money Market Funds These funds do not have any maturity date	No	Yes	Yes. AAAmmf / Aaa-mf	No	In-house	period of investment may not be determined at outset but will be subject to cash flow and liquidity requirements

Monitoring of credit ratings:
All credit ratings will be monitored on an ongoing basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn and consideration given to withdrawing any funds already deposited with that counterparty.

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Non-specified investments

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits - UK Government	No	Yes	Govt-backed	No	In-house	5 years
Term deposits - other Local Authorities	No	Yes	High security although Local Authorities not credit rated	No	In-house	5 years
Term deposits - banks	No	Yes	Yes. Long term AA- Short term F1+	No	In-house	5 years

This Strategy also sets out:

- The procedures for determining the use of each asset class (advantages and associated risk).
- The maximum periods for which funds may be prudently committed in each asset class.
- The £ or % limit to be invested in each asset class.
- Whether the investment instrument is to be used by the Council's in-house officers.
- The minimum amount to be held in short-term investments

Country limits
The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

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Specified investments: All such investments will be sterling denominated, with **maturities up to a maximum of one year**, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	Government backed
Money Market Funds	AAAmmf / Aaa-mf
Term deposits – UK government	Government backed
Term deposits – Local Authorities	High Security
Term deposits – Banks & Building Societies	Short-term F1+, Long-term AA-

Since the 'credit crunch' crisis there have been a number of developments which have been given separate consideration and approval for use: -

Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1: in other words, on both counts, they have the highest ratings possible.

The Council applies individual limits on investments with banks within each group of nationalised banks and a limit on the group overall.

Blanket guarantees on all deposits. Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee. The Council will only invest in banks where their individual and sovereign rating meets with our minimum criteria.

UK banking system support package (implicit guarantee). The UK Government has not given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by initially supporting eight named banks with a £500bn support package:

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- Santander (previously Abbey)
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government, mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28 February 2010. The banks which have used this explicit guarantee are as follows:

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec Bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

The Council relies on the credit ratings of the individual banks and does not invest with these banks on the strength of the support package alone.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be thoroughly reviewed before they are undertaken.

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Non-specified investments: A maximum of £35.0 million will be held in aggregate in non-specified investments.

	Minimum Credit Criteria	Max of Total Investments	Max Maturity Period
Term deposits – UK government (with maturities in excess of 1 year)	Government Backed	£10.0 million	5 years
Term deposits – other Local Authorities (with maturities in excess of 1 year)	High Security	£10.0 million per LA	5 years
Term deposits – banks (with maturities in excess of 1 year)	Short term F1+ Long term AA-	£10.0 million per bank	5 years

The complete list of approved counterparties is included in the Treasury Management Strategy and in each quarterly monitoring report. The Finance Manager (Treasury Management) will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

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

- Quality financial press
- Market data Information on government support for banks
- The credit ratings of that government support

1.2 Liquidity

Cash Balances

Cash balances are derived from reserves, surpluses, provisions and any capital receipts held pending future use. These are invested externally with approved institutions.

Investment of surplus funds

After the aggregation of all internal balances, surplus funds will be invested externally to earn interest and returned to the Council in order to meet projected future shortfalls in cash flow.

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The Council's aggregate daily internal balances can vary quite markedly from day-to-day. Active cash flow management is essential to ensure that sufficient cash balances are available to meet commitments on pay days and creditor and other payment days.

Temporary loans (maximum of 364 days)

Temporary Loans can be obtained within the borrowing limits to provide short term finance or to match any cash flow shortfall pending receipt of other revenues or longer term loans. These loans are generally unlikely to be necessary since a positive cash flow is generated by the Council's bank account subject to other financing transactions, however, in the current low interest rate climate, they may be used to obtain short term borrowing at exceptionally low interest rates.

Banking facilities and limits

The Council's banking arrangements are conducted in accordance with the statutory requirement including:

- the Local Government Finance Acts 1988 and 1992
- the Education Reform Act 1988
- the Local Government and Housing Act 1989

An overdraft facility is provided on a net balance and on the aggregate of the core main account balances.

As some of the accounts may be in debit whilst others may be in credit, the net balance of each account will be maintained within the net limit. The aggregate of all balances will be maintained within the gross limit.

Net Limit:	£500,000
Gross limit:	£10,000,000

Core main bank accounts:

- WCC Current Account
- WCC Automated Income Account
- WCC Payments Account
- WCC Local Taxes Account

There is an additional group of Imprest bank accounts whose balances are pooled for interest purposes, however, these do not have an overdraft facility.

Overdraft pricing is based on base rate + 1% with a fee of 0.5%.

Overdrawn balances in excess of the agreed facility will be charged at base rate + 3%.

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Bankers' Automated Clearing Services (BACS)

The following service credit limits are in place:

993695	Payroll	£25,000,000
972860	Payments	£20,000,000
971926	Council Tax	£1,250,000
920046	NNDR	£2,500,000
973636	Housing Benefit	£4,000,000
973531	Electoral	£150,000

Clearing House Automated Payments System (CHAPS)

CHAPS are able to be made when insuffient funds are held on the balance of the core main accounts.

The bank will make payment in anticipation of receiving covering funds by the end of the business day. This risk is called the daylight exposure limit which is set at £40,000,000.

The bank reserves the right to refuse any payment in excess of this limit.

The bank may review the risk it is willing to take on this limit with the Council at its discretion.

These transactions are completed using online banking and are done in accordance with the Council's procedures.

Policy in terms of borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue costs created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, having regard to the controls in place to minimise such risks.

1.3 Interest rate

Maximum proportions of variable rate debt/interest

Each financial year Council approves upper limits on variable interest exposures. These can be found in the Treasury Management Indicator TMI 2 of the annual Treasury Management Strategy document and the quarterly monitoring activity reports.

Maximum proportions of fixed rate debt/interest

Each financial year Council approves upper limits on fixed interest exposures. These can be found in the Treasury Management Indicator TMI 2 of the annual Treasury Management Strategy document and the quarterly monitoring activity reports.

Policies concerning the use of financial derivatives for interest rate risk management

Financial derivatives are not an approved instrument and will therefore not be used.

1.4 Exchange rate

Details of approved exchange rate exposure limits for cash investments/debt

It is council policy to undertake transactions in pounds sterling only and therefore, the exposure to fluctuations in exchange rates is limited to grants or payments from a third party that may be received in a foreign currency. Accordingly, there are no approved exchange rate exposure limits.

Approved criteria for managing changes in exchange rate levels

In respect of any sums received in a foreign currency, steps will be taken to convert to sterling as soon as practicable to minimise the risk. In respect of third party payments, the third party carries this risk.

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Policies concerning the use of financial derivatives for exchange rate risk management

Financial derivatives are not an approved instrument and will therefore not be used.

1.5 Refinancing

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

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

- the generation of cash savings at minimum risk
- to reduce the average interest rate
- to amend the maturity profile and/or the balance of volatility of the debt portfolio

Rescheduling will be reported to the Cabinet (Resources) Panel at the meeting immediately following its action.

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

The Council will always keep revenue implications of capital financing under review to ensure they continue to be affordable and sustainable in the context of the Medium Term Financial Strategy.

The Council will use the definition provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, debt, financing costs, investments, net borrowing, net revenue stream and other long term liabilities.

1.6 Fraud, error and corruption, and contingency management

Details of systems and procedures to be followed including internet services

In all the services the Council undertakes, it is committed to acting at all times with integrity and in an open and honest manner.

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The Council will not accept any level of fraud or corruption and will vigorously investigate all allegations of fraud or corruption.

The Council is committed to having in place procedures and systems so as to limit as far as possible the opportunities for fraudulent acts or enable their early detection, together with procedures to ensure such acts are promptly and thoroughly investigated. The Council will:

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

The practices and procedures outlined in the Treasury Management Practices are designed to fully document all transactions and to clearly demonstrate that the highest standards have been adhered to.

Emergency and contingency planning arrangements

In the event of an emergency or other events which prevent the Director of Finance and his staff from carrying out treasury management activities, the Director of Finance, or his Deputy in his absence, will authorise the Council's bankers in writing (the National Westminster Bank plc, trading as RBS Commercial & Private Banking) to roll-over surplus cash balances on a daily basis to accrue interest.

Insurance cover details

It is normal practice in the private and public sector for employing bodies to indemnify their employees. Employees are currently covered by a Finance and General Purposes Committee Resolution of 13.4.87:

> "That the Council shall indemnify in perpetuity all employees and former employees of the Council against all liability, professional or otherwise for negligence or negligent omission or breach of contractual or statutory duty arising out of the employee's employment with the Council and that such indemnity shall extend to any such liability arising out of the employee's engagement of duties undertaken by the Council on behalf of any other authority or body.

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Provided that such indemnity shall not extend to any liability arising as a result of fraud, dishonesty or other criminal activity or of wilful misconduct, gross negligence or gross dereliction of duty on the part of the employee".

The indemnity will not apply if any employee, without the written authority of the Authority, admits liability or negotiates or attempts to negotiate a settlement of any claim falling within the scope of this Resolution.

The indemnity does not extend to loss or damage directly or indirectly caused by or arising from:

(a) Fraud, dishonesty or any other criminal act on the part of the employee;
(b) Actions outside his/her normal duties;
(c) Wilful misconduct, gross negligence or gross dereliction of duty, including liability in respect of surcharges made by the External Auditor.

Insurance cover for employees is as follows:

- Public and employers' liability
- Officers' indemnity (financial loss to third parties)
- Libel and slander
- Fidelity guarantee and special contingency for cheques
- Cash in transit
- Personal accident (assault)
- Travel cover on request for official journeys outside the U.K.

1.7 Market value of investments

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS, etc.)

In the event that opportunities for making such investments appear to the Director of Finance to be in the Council's financial interests, a report will be submitted to the Cabinet (Resources) Panel setting out the costs, benefits and potential risks.

No such investments will proceed without prior approval of such a report by the Cabinet (Resources) Panel.

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Schedule 2 : TMP 2 – Performance measurement

2.1 Evaluation and review of treasury management decisions

The Council has a number of approaches to evaluating treasury management decisions:

(a) the treasury management team will carry out ongoing reviews of its activities
(b) reviews will be undertaken with its treasury management consultants
(c) annual review after the end of the year is reported to full council
(d) quarterly reports to Cabinet (Resources) Panel
(e) comparative reviews with other local authorities
(f) strategic, scrutiny and efficiency value for money reviews

Ongoing periodic reviews during the financial year

The Director of Finance regularly reviews the actual activity against the Treasury Management Strategy Statement and cash flow forecasts. This includes monitoring debt including average rate, maturity profile and the Council's borrowing strategy; and investments including average rate, maturity profile and changes to the above from the previous review and against the Treasury Management Strategy (Annual Investment Strategy). The Council's credit rating methodology and current counterparty list is also reviewed regularly.

Reviews with the Council's treasury management consultants

The treasury management team holds reviews with the Council's treasury management consultants to review the performance of its investments and debt portfolios. The Council's borrowing strategy and counterparty risk strategy are also reviewed at these meetings, which are held periodically, usually to coincide with a specific need (e.g. the imminent need to borrow, or following a significant change in the market/economy). At least one review meeting is held during each financial year.

Annual review after the end of the financial year

An Annual Treasury Report is submitted to the Council each year after the end of the financial year which reviews the performance of the debt/investment portfolios. This report covers the following:

(a) total debt and investments at the beginning and close of the financial year and average interest rates
(b) borrowing strategy for the year compared to actual strategy
(c) investment strategy for the year compared to actual strategy
(d) explanations for variance between original strategies and actual
(e) debt rescheduling done in the year
(f) actual borrowing and investment rates available through the year
(g) comparison of return on investments to the investment benchmark

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(h) compliance with Prudential and Treasury Indicators any other relevant information

Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- WM Treasurers Support Group Benchmarking Club

2.2 Benchmarks and calculation methodology

Debt management

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

Investment

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

Bank of England Base Lending Rate; 7 day LIBID; 1 month LIBID; 3 month LIBID

2.3 Policy concerning methods for testing value for money in treasury management

Frequency and processes of tendering

These will be determined in accordance with the Council's Constitution.

Banking services

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

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Money-broking services

Money market brokers are used for placing surplus internal funds with approved financial institutions on a short term basis as part of the Council's cash flow management. Surplus internal funds are invested in the money markets in accordance with the guidelines set out in Section 1.1. Money market brokers are also used to assist the Council in meeting any temporary borrowing requirements. The current panel of brokers used by the Council are as follows:

- Tullett Prebon (Europe) Limited
- Martin Brokers (UK) plc
- ICAP Europe Limited
- Tradition (UK) Limited trading as City Deposit Brokers

Consultants'/advisers' services

The Council has appointed Capita Asset Services as its professional treasury management advisers.

Policy on external managers (other than relating to pension funds)

The Council's current policy is not to appoint external investment fund managers. The reasons for this are:

- the estimated level of surplus funds likely to be available over the medium term can be adequately managed by the Director of Finance;

- In light of this appointment of external fund managers would not be cost effective.

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Schedule 3 : TMP 3 – Decision-making and analysis

3.1 Funding, borrowing, lending and new instruments/techniques

Records to be kept

The Director of Finance shall be the Council's registrar of stocks, bonds and mortgages and shall maintain records of all borrowings and investments of money by the Council. All records and documents shall be available for inspection by internal audit and the Council's external auditors. All borrowings and investments of money under the Council's control shall be made in the name of the Council.

Processes to be pursued

The Chief Accountant shall document for the approval of the Director of Finance the systems, procedures and processes which deliver the approved Treasury Management Policies and Practices. The documentation will be kept up-to-date. The aim will be to provide a treasury management systems document which has day to day relevance and within which all treasury management staff are aware of their duties and responsibilities.

Issues to be addressed

In respect of every decision made, the Council will:

(a) above all be clear about the nature and extent of the risks to which the organisation may become exposed;

(b) be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;

(c) be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping;

(d) ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded;

(e) be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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

(a) evaluate the economic and market factors that might influence the manner and timing of any decision to fund;

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(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 options available, the most appropriate periods to fund and repayment profiles to use, consider the on-going revenue costs, and the implications for the Council's future plans and budgets.

In respect of investment decisions, the Council will:

(a) consider the optimum period, in the light of cash flow availability and prevailing market conditions;

(c) 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.

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Schedule 4 : TMP 4 – Approved instruments, methods and techniques

4.1 Approved activities of the treasury management operation

- borrowing
- lending
- debt repayment and rescheduling
- consideration, approval and use of new financial instruments and treasury management techniques
- managing cash flow
- banking activities
- leasing
- the use of external fund managers (other than in respect of the Pension Fund)
- managing the underlying risk associated with the Council's capital finance and investment activities

4.2 Approved instruments for investments

In accordance with The Local Organisations (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments, the instruments approved for investment and commonly used by local councils are:

- Gilts
- Treasury Bills
- Deposits with banks, building societies or local organisations (and certain other bodies) for up to 364 days
- Certificates of deposits with banks or building societies for up to 364 days
- Euro-Sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges
- Triple A rated money market funds
- Debt Management Account (run by DMO/PWLB)

4.3 Approved techniques

The following are approved techniques:

- Forward dealing up to 5 years
- There was a limit of £20.0 million for deposits over 1 year and up to 5 years; this was increased to £35.0 million in 2008/09 to take advantage of exceptionally high interest rates available on longer term deals. This decision was approved by Cabinet (Resources) Panel 15 July 2008.

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The following may be used by organisations which are **not** local authorities:

- Swaps
- Caps
- Collars
- Options

The Council will **not** use any of the above techniques.

4.4 Approved methods and sources of raising capital finance

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

On balance sheet

PWLB
EIB
Finance Leases
Market (long term)
Market (temporary)
Market (LOBOs)
Stock issues
Local Temporary
Local Bonds
Overdraft
Negotiable Bonds
Internal (capital receipts and revenue balances)
Commercial Paper
Medium Term Notes
Deferred Purchase

Other methods of financing

Government and EC Capital Grants
Lottery monies
PFI / PPP
Operating Leases

All forms of funding will be considered by the Director of Finance taking into consideration the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

All borrowing transactions entered into by the Director of Finance will be reported to the Cabinet (Resources) Panel.

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

5.1 Limits to responsibilities/discretion at Council and Cabinet (Resources) Panel

Council

(a) Approving the annual report on treasury management policies, practices and activities.
(b) Approving the Treasury Management Strategy Statement/Annual Investment Strategy/MRP Policy, including a mid-year review and any other revisions/updates.
(c) Approving the Annual Treasury Report
(d) Approval of Treasury Management budgets

Cabinet

(a) Recommending the Annual Treasury Report to Council.

Cabinet (Resources) Panel

(a) Receiving and reviewing the quarterly Treasury Management Monitoring reports.
(b) Monitoring performance against budgets.
(c) Approval of the division of responsibilities.
(d) Receiving and reviewing external audit reports and acting on recommendations.
(e) Approving the selection of external service providers and agreeing terms of appointment.

5.2 Principles and practices concerning segregation of duties

The varied aspects of treasury management and the large volume of funds involved require a clear segregation of duties. The Council's Treasury Management Practices reflect the separation of duties, namely:

(a) Policy formulation - approved by Council and monitored/amended by Cabinet (Resources) Panel.
(b) Treasury advice - the Director of Finance is the responsible officer for advising Council and Cabinet (Resources) Panel. The recommendations made to Councillors will also reflect the advice provided to the Director of Finance by specialist external advisors.
(c) Dealing in the Market - undertaken by rotating use of one of four approved brokers.
(d) Recording and administration is carried out by the Finance Manager (Treasury Management).
(e) All transactions are subject to both internal and external audit.

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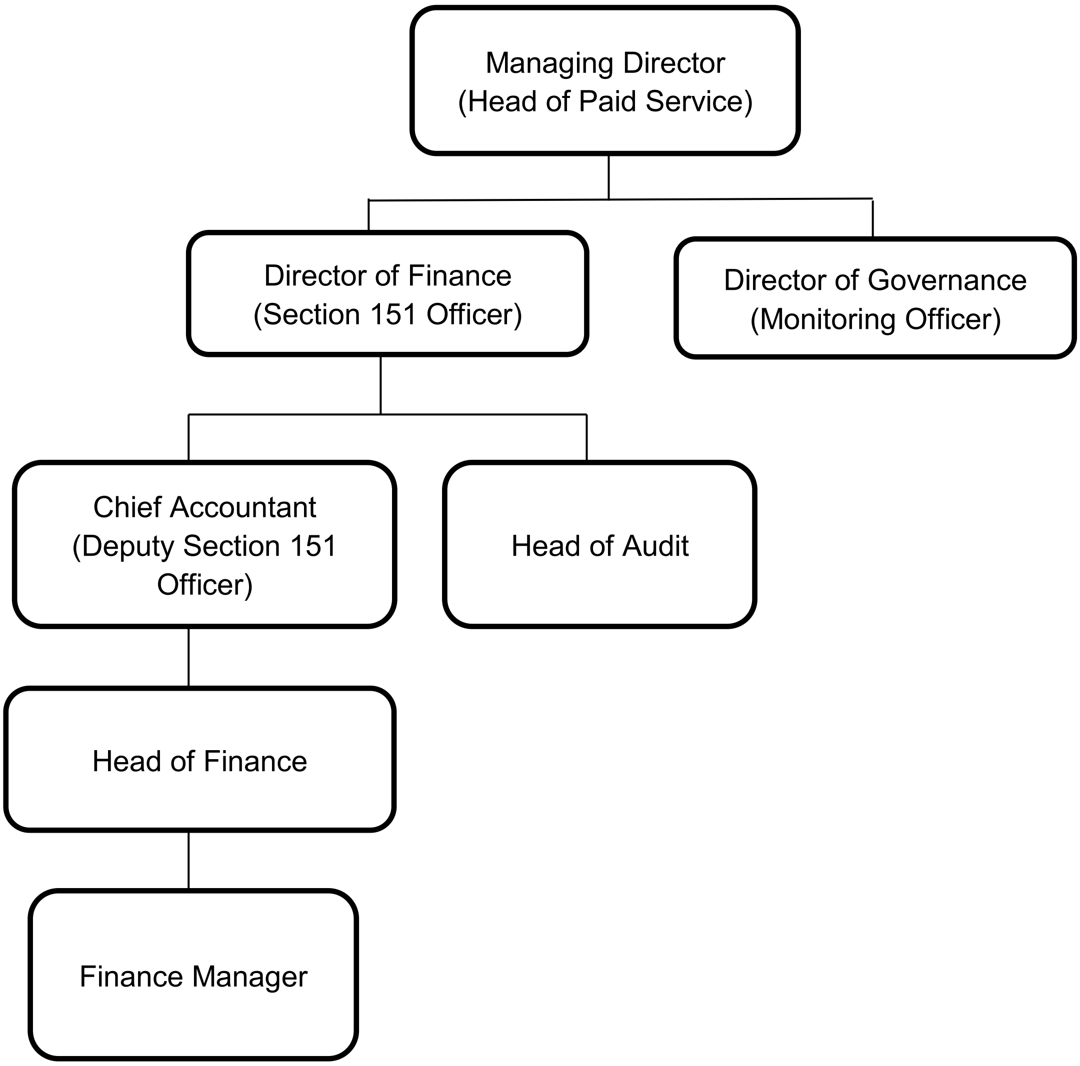
(f) The Managing Director has responsibility for ensuring that a specified system is implemented.

(g) The Director of Governance has responsibility for ensuring compliance with the law.

5.3 Treasury management organisation chart

The treasury management organisation chart as at February 2015 is as follows:



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5.4 Statement of duties/responsibilities of each treasury post

5.4.1 Director of Finance (Section 151 Officer)

1. The Director of Finance will:

   (a) Recommend treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
   (b) Submit regular treasury management policy reports to Cabinet (Resources) Panel.
   (c) Submit reports on performance against budgets to Cabinet (Resources) Panel.
   (d) Receive and review management information reports.
   (e) Review the performance of the treasury management function and promote best value reviews.
   (f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
   (g) Ensure the adequacy of internal audit.
   (h) Liaising with external audit.
   (i) Recommend the appointment of external service providers.

2. The Director of Finance has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

3. The Director of Finance may delegate his power to borrow and invest to members of his staff. The Director of Finance, Chief Accountant, Head of Finance or the Finance Manager (Treasury Management) must conduct all dealing transactions, or staff authorised by the Director of Finance to act as temporary cover for leave/sickness. All transactions must be authorised by at least one of the named officers above.

4. The Director of Finance and the Director of Governance will ensure that the treasury management policy is adhered to, and if not, will bring the matter to the attention of elected councillors as soon as possible.

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

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

5.4.2 Finance Manager

Under the direction and supervision of either the Director of Finance or, in their absence, the Chief Accountant, the Finance Manager will be responsible for:

(a) Execution of transactions
(b) Adherence to agreed policies and practices on a day-to-day basis
(c) Ensuring that adequate records are maintained and procedures are fully documented
(d) Maintaining cash flow projections
(e) Maintaining relationships with third parties and external service providers
(f) Supervising treasury management staff
(g) Monitoring performance on a day-to-day basis
(h) Submitting regular management information reports to the Director of Finance
(i) Identifying and recommending opportunities for improved practices
(j) Reporting any actual or potential variations to agreed policies and procedures as they arise.

5.4.3 Managing Director (Head of the Paid Service)

The responsibilities of this post will be:

(a) Ensuring that the treasury management system is specified and implemented
(b) Ensuring that the Director of Finance reports regularly to the Council and Cabinet (Resources) Panel on treasury policy, activity and performance.

5.4.4 Director of Governance (Monitoring Officer)

The responsibilities of this post will be:

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

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5.4.5 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

The Chief Accountant will ensure that other staff within Corporate Accountancy who do not deal with treasury management activities on a daily basis are sufficiently trained so that they can provide absence cover. Such cover will be limited to dealing with the production of daily up-dates of the Council's cash flow statements and, in exceptional circumstances, communicating deals through to the Council's brokers and bank once instructions have been received from either the Director of Finance or the Chief Accountant.

5.6 List of approved brokers

ICap Europe Ltd
Martin Brokers (UK) plc
Tullett Prebon (Europe) Ltd
Tradition UK Limited

5.7 Policy on brokers' services

To avoid an over-reliance on a single broker and thereby enhance objective dealings, deals will be spread amongst brokers on a rotation basis.

5.8 Policy on taping of conversations

Taping of conversations with the Council's brokers and bank is not normally carried out by the Director of Finance or his staff.

5.9 Direct dealing practices

Direct dealing with counterparties by the Director of Finance or his staff is undertaken with the following, in order to achieve higher rates than dealing with them via our brokers and to maintain adequate levels of liquidity:

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The Council's bankers (National Westminster Bank plc, trading as RBS Commercial & Private Banking) - overnight deposits only
Aim Global Ltd (STIC) - Money Market Fund
Black Rock Institutional Sterling Liquidity Fund – Money Market Fund
Ignis Sterling Liquidity Fund – Money Market Fund
Prime Rate Sterling Liquidity Fund - Money Market Fund
Santander - Business Reserve Account
BOS – Corporate Instant Access Account
Natwest - Call Account
Allied Irish Bank (GB) – Fixed Term Account
Bank of Ireland – Time Deposit Account
Scottish Widows Institutional Sterling Liquidity Fund - Money Market Fund

In the event that any of these counterparties fall below the Council's minimum lending criteria, activity in that account will temporarily cease and any balance withdrawn immediately. However, the accounts will remain open for future dealings if or when their credit ratings recover.

5.10 Settlement transmission procedures

Deals will normally be made by telephone and confirmed by fax, with payments being made and sums being received by telephonic transfer.

5.11 Documentation requirements

Every deal will be fully documented showing the name of the broker used, amount, period, counterparty, interest rate, date, commission and transmission arrangements. All documentation will be available for inspection by internal and external audit. All documentation will be retained for six years.

5.12 Arrangements concerning the management of third party funds

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

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Schedule 6 : TMP 6 – Reporting requirements and management information arrangements

6.1 Annual Treasury Management Strategy Statement

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval as part of the overall budget and council tax determination process prior to the commencement of each financial year.

The formulation of the annual Treasury Management Statement involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Director of Finance may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early (subject to borrowing in advance of need) if fixed interest rates are expected to rise.

The Treasury Management Strategy is concerned with the following elements:

- Prudential and Treasury Indicators
- current treasury portfolio positions
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issues
- the Council's MRP policy

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

6.2 Annual Investment Strategy

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

- the Council's risk appetite in respect of security, liquidity and optimum performance
- the definition of high credit quality

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- the investment instruments that the Council will use
- whether they will be used by the in-house team, external managers or both
- the Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- which credit ratings the council will use
- how the Council will deal with changes in rating, rating watches and rating outlooks
- limits for individual counterparties and group limits
- country limits
- levels of cash balances
- interest rate outlook
- budget for investment earnings
- policy on the use of external fund providers

6.3 Annual Minimum Revenue Provisions Statement

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

6.4 Policy on Prudential and Treasury Indicators

The Council will approve before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The Director of Finance is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Finance shall submit the changes for approval to full Council.

6.5 Mid-year review

In addition to the annual review, the council will review its treasury management activities and strategy on at least one occasion during the financial year in question. This review will consider the following:

- activities undertaken
- variations, if any, from agreed policy/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities

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6.6 Annual report on treasury management activity

An annual report will be presented to the Cabinet and to 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:

- transactions executed and their revenue effects
- report on risk implications of decisions taken and transactions executed
- compliance report on agreed policies and practices, and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA Code recommendations
- monitoring of treasury management indicators

6.7 Management information reports

Management information reports will be prepared regularly by the Finance Manager (Treasury Management) and will be presented to the Director of Finance.

These reports will contain the following information:

- a summary of transactions executed and their revenue effects
- measurements of performance including effect on loan charges/investment income
- degree of compliance with original strategy and explanation of variances
- any non-compliance with Prudential limits or other treasury management limits

6.8 Quarterly monitoring reports

A quarterly monitoring report will be submitted by the Director of Finance to meetings of the Cabinet (Resources) Panel or Cabinet as appropriate to compare actual performance, practices and activity with the current approved Treasury Management Policy Statement/Practices.

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Schedule 7 : TMP 7 – Budgeting, accounting and audit arrangements

7.1 Statutory/regulatory requirements

The accounts are drawn up in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom which is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's Treasury Management in the Public Services – Code of Practice (the CIPFA Code), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Accounting practices and standards

Due regard is given to the Code of Practice on Local Authority Accounting in the United Kingdom.

7.3 Sample budgets / accounts / prudential and treasury indicators

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

7.4 List of information requirements of external auditors

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

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

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Schedule 8 : TMP 8 – Cash and cash flow management

8.1 Arrangements for preparing/submitting cash flow statements

The Finance Manager (Treasury Management) prior to the start of a new financial year will prepare a cash flow statement showing the Council's expected payments and income over that forthcoming financial year. This will be updated daily by no later than 11.00 a.m. to form rolling cash flow forecasts. The cash flow forecast will be monitored on a regular basis by the Director of Finance or, in his absence, the Chief Accountant.

The cash flow forecast will identify the following factors:

(a) Payments
- Repayment of maturity and instalment loans
- Profile of salary payments
- Profile of payments to HMRC for income tax and national insurance
- Profile of payments to precepting authorities
- Profile of creditor payments
- CHAPS and Telephone Transfer payments to be identified in advance

(b) Income
- Profile of Government Grants for RSG purposes
- Profile of Dedicated Schools Grant
- Profile of other Government Grants
- Profile of daily cash income
- Profile of VAT reimbursements
- Profile of weekly Collection Fund income
- Large capital receipts to be identified

The cash flow forecast for the financial year will be updated on a daily basis. In addition, a forecast for the following financial year will be created 3 months prior to the start of that year. Forecasts will be monitored against daily bankings and clearings.

The estimated daily bank overdraft is not to exceed £500,000.

8.2 Bank statement procedures

Daily bank statements for all accounts are available through online banking which are reconciled to all income and expenditure.

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8.3 Payment scheduling and agreed terms of trade with creditors

All contracts for the supply of goods or services must be subject to the Council's standard payment terms – monthly in arrears. Any contracts which require special financing arrangements these must be agreed by the Director of Finance.

Where a contract provides for payments to be made by instalments following the delivery of services or completion of work, a cost plan must be prepared for such contracts and payments monitored against that plan.

Work carried out by 'statutory undertakings' is excluded from the Competition Requirements of the Contracts Procedure Rules and payment in advance of the works being carried out is considered to be acceptable.

The standard method of payment of creditors is by BACS, 30 days from date of invoice unless the invoice is in dispute.

8.4 Arrangements for monitoring debtor/creditor levels

Revenues and Benefits carry out monthly analysis (which is audited) of debtor levels against performance targets.

The Hub Payments Team will carry out monthly analysis (which is audited) of creditor levels against performance targets.

8.5 Procedures for banking of funds

The Director of Finance shall approve the arrangements for the collection and banking of all money due to the Council.

Each officer shall ensure the prompt raising of debtor invoices for the recovery of income due.

All stationery used in connection with the collection and allocation of income shall be held and distributed under approval from the Director of Finance.

On receipt of income the employee shall; immediately record the transaction, provide the customer with verification of payment and subsequently bank the monies in accordance with Council procedure rules.

No deduction may be made from any income receipted without approval from the Director of Finance.

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In accordance with the Accounts and Audit Regulations 2003, the amount of each cheque shall be recorded on either the bank paying in slip or an attached cheque listing detailing; the amount, the receipt number or reconciling information.

Personal cheques shall not be cashed through the Council's bank accounts.

Any transfer of physical money from one employee to another will be evidenced in the records of the responsible service.

The Council has established an Anti-Money Laundering Policy to ensure it is compliant with the requirements of the current Money Laundering Regulations.

Therefore, all employees receiving cash on behalf of the Council should ensure that they comply with this policy.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

All income streams in excess of £25,000 that were not included in the approved budget shall be reported to the Director of Finance at the earliest opportunity.

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Schedule 9 : TMP 9 – Money laundering

The Council refreshed its anti-money laundering policy and procedure in December 2014, below is a copy of this policy approved by Audit Committee 15 December 2014.

9.1 Introduction

Money laundering is any process whereby funds derived from criminal activity are given the appearance of being legitimate. The Council must be alert to the possibility that attempts could be made to utilise funds obtained from criminal activity to pay for Council services.

The Council is committed to preventing money laundering by having anti-money laundering systems in place to establish the legitimacy of the sources of income.

This Anti-Money Laundering Policy makes it clear that it is extremely important that all employees are familiar with:

- the legal responsibilities;
- the serious criminal sanctions that may be imposed for breaches of the money laundering legislation;
- the need to be vigilant and take appropriate steps to reduce the opportunities for breaches of the Money Laundering Regulations 2007 (the Regulations);
- The key requirement to promptly report (disclose) any suspected money laundering activity to the Money Laundering Reporting Officer.

9.2 Legal requirements

The regulations set out detailed requirements for the Council to establish procedures to prevent its services being utilised for the purposes of money laundering. In addition, to adherence with the Regulations the Council must also comply with the Terrorism Act 2000 which makes it illegal to financially support money laundering for the purposes of terrorism. The Proceeds of Crime Act (POCA) 2002 further defines the offences of money laundering, creates mechanisms for investigating and recovering the proceeds of crime as well as placing an obligation on the Council and its employees to report suspected money laundering activities.

9.3 What is money laundering?

Money laundering is any process which is intended to use, control, hide or disguise monies or property which are the proceeds of 'crime'. The primary money laundering offences are:

- concealing, disguising, converting, transferring or removing criminal property from the UK (section 327 of POCA);

- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328 of POCA);
- acquiring, using or possessing criminal property (section 329 of POCA);
- becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

There are also two secondary offences:

- failure to disclose any of the three primary offences;
- tipping off the people suspected of being involved in money laundering, in such a way as to reduce the likelihood of them being investigated or prejudicing an investigation.

9.4 Which service areas are affected by money laundering?

The Money Laundering legislation defines ‘regulated activity’ as the provision ‘by way of business’ of advice about tax affairs, accounting services, treasury management, investment or other financial services, audit services, legal services, estate agency, services involving the formation, operation or arrangement of a company or trust or, dealing in goods wherever a transaction involves a payment of €15,000 (approx. £12,500) or more.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

9.5 Establishing the identity of a customer (due diligence)

Where the Council is carrying out certain ‘regulated activities’, extra care is required to confirm the identity of the customer. Documents, data or information obtained from reliable and independent sources should be checked – this is known as carrying out customer due diligence.

However, if the answer to any of the following three questions is no then there is no need to carry out customer due diligence.

- Is the service a regulated activity?
- Is the Council charging for the service?
- Is the service being provided to a customer other than a UK public authority?

If the answer to all questions is yes then customer due diligence must be carried out before any business is undertaken with the customer. If there is uncertainty whether customer due diligence is required then advice must be obtained from the Money Laundering Reporting Officer.

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Due diligence can be used to evidence a customer's identity by, for example:

- checking with the customer's website to confirm their business address
- conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors
- Conducting personal identity checks for example, requesting that the customer provide their current passport/driving licence, birth certificates

In certain circumstances enhanced customer due diligence must be carried out, for example, where:

- the customer has not been physically present for identification
- the customer is a politically exposed person
- there is a beneficial owner who is not the customer – a beneficial owner is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

If it is believed that enhanced customer due diligence is required then the Money Laundering Reporting Officer should be consulted prior to carrying it out. Customer due diligence should be completed for all relevant new customers and for existing customers, during the life of a business relationship, proportionate to the risk of money laundering and terrorist funding.

If, at any time, it is suspected that a client or customer for whom the Council is currently, or is planning to carry out a regulated activity with, is involved in money laundering activities, terrorist financing, or has lied about their identity then this must be reported to the Money Laundering Reporting Officer.

9.6 Reporting suspected cases of Money Laundering

Where an employee or Councillor knows or suspects that money laundering activity is taking/has taken place, or becomes concerned that their involvement in a matter may amount to a prohibited act under sections 327 to 329 of POCA, they must disclose this without delay or as soon as reasonably practicable to the Money Laundering Reporting Officer. Failure to report such activity may render the employee subject to prosecution and/or disciplinary action in accordance with the Council's disciplinary policy. The procedure for disclosure is:

- to complete a 'Disclosure Report to the Money Laundering Reporting Officer'(using a standard form) to include as much detail as possible e.g. name, date of birth, address,company names, directorships, phone numbers, nature of the activity etc;

The Council has appointed the following employee as the Money Laundering Reporting Officer (MLRO):

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Peter Farrow - Head of Audit Services
Tel: (01902) 554460
e-mail: peter.farrow@wolverhampton.gov.uk

In the absence of the MLRO listed above, the following employee is authorised to deputise:

Richard Morgan, Senior Audit Manager
Tel: (01902) 555612
e-mail: richard.morgan@wolverhampton.gov.uk

Further advice on money laundering matters can also be obtained from:

Mark Taylor – Director of Finance (S151 Officer)
Tel: (01902) 556609
e-mail: mark.taylor@wolverhampton.gov.uk

Kevin O'Keefe – Director of Governance/Monitoring Officer
Tel: (01902) 554910
e-mail: kevin.o'keefe@wolverhampton.gov.uk

9.7 Investigating and Reporting Money Laundering

How will the Money Laundering Reporting Officer investigate a disclosure?

The Money Laundering Reporting Officer will:

- acknowledge receipt of the disclosure report;
- assess the information provided to make a judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering activities and;
- prepare a Suspicious Activity Report (SAR) to the National Crime Agency (NCA), where appropriate;
- The employee or Councillor must follow any directions given by the Money Laundering Reporting Officer
- The employee or councillor must cease all involvement in the transaction (not make any further enquiries into the matter themselves) unless or until consent is provided by the NCA.
- The employee or Councillor must specify in the disclosure report if such consent is required to comply with any transaction deadlines.
- Any necessary investigation will be undertaken by the NCA. Employees and Councillors will be required to co-operate with any subsequent money laundering investigation.
- At no time and under no circumstances should the employee or Councillor voice any suspicions to the person(s) suspected of money laundering, even if the NCA

has given consent to a particular transaction proceeding, without the specific consent of the Money Laundering Reporting Officer, otherwise a criminal offence of "tipping off" may be committed.

- Where the Money Laundering Reporting Officer concludes that there are no reasonable
grounds to suspect money laundering then they shall mark the disclosure report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- All in-house disclosure reports and NCA Suspicious Activity Reports will be retained for a minimum of five years after the business relationship ends or an occasional transaction is completed.

9.8 Record Keeping

Each area of the Council which conducts relevant business must maintain suitable records of any completed due diligence checks and details of relevant transactions must be maintained for at least five years. This provides an audit trail and evidence for any subsequent investigation into money laundering, for example, distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

9.9 Review of the Money Laundering Policy

The Money Laundering Policy will be reviewed on an annual basis by the Head of Audit Services to ensure that it remains up to date, fit for purpose and represents generally acceptable good practice.

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Schedule 10 : TMP 10 – Training and qualifications

10.1 Details of approved training courses, etc.

Principally using seminars and training, where appropriate, provided by Capita Asset Services:

- bi-annual seminars, including workshops
- regional training
- specific training or individual briefing sessions

A record will be maintained of all training courses and seminars attended by staff and councillors engaged in treasury management activities.

All staff engaged on treasury management activities will undergo regular management development reviews to assist in career development, etc.

The Chief Accountant, Head of Finance and Finance Manager (Treasury Management) will be professionally qualified accountants, preferably CIPFA.

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

10.2 Standards of professional practice (SOPP)

The Council's Assistant Director Finance is a member of CIPFA. The postholder is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other senior staff involved in treasury management activities who are members of CIPFA will also comply with the SOPP.

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Schedule 11 : TMP 11 – Use of external service providers

11.1 Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of services provided

11.1.1 Core Banking Services

(a) Name of supplier of service - National Westminster Bank plc, trading as RBS Commercial & Private Banking.

(b) Contract commences 1 April 2015 and runs for five years with the option to extend for a further two years.

(c) The above contract was awarded by Individual Executive Decision Notice on 11 November 2014.

11.1.2 Merchant Acquiring Services (Card Acquiring Services)

(a) Name of supplier service – Lloyds Banking Group.

(b) Contract commences 1 April 2015 and runs for five years with the option to extend for a further two years.

(c) The above contract was awarded by Individual Executive Decision Notice on 30 January 2015.

11.1.3 Money-broking services

ICAP plc (formerly Intercapital plc)
Martin Brokers (UK) plc
Tullett Prebon (formerly Prebon Yamane)
Tradition UK Limited

11.1.4 Cash/fund management services

No external suppliers are used to provide these services.

11.1.5 Consultants'/advisers' services

(a) Name of supplier of service – Capita Asset Services

(b) Contract commenced 1 January 2015 for three years until 31 December 2017.

(c) Service provided - treasury management specialist advice

11.2 Procedures and frequency for tendering services

See Schedule 2 : TMP 2 Performance measurement.

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Schedule 12 : TMP 12 – Corporate governance

12.1 List of documents to be made available for public inspection

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

The Council will make available to any interested party:

- Treasury Management Policy and Practices Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Treasury Report
- Treasury Management monitoring reports (quarterly)
- Annual Statement of Accounts and financial instruments disclosure note
- Annual budget and Medium Term Financial Strategy
- HRA Business Plan
- Approved Capital Programme
- Minutes of Council/Cabinet meetings

12.2 Procedures for consultation with stakeholders

Stakeholders have an opportunity to comment on the Council's Treasury Management activities as part of the overall annual budget consultation process and to inspect any transactions when the Council's accounts are placed on deposit for inspection each year.

12.3 List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments

The Council does not manage funds on behalf of other organisations.