

ADOPTION OF THE CIPFA TREASURY MANAGEMENT CODE OF PRACTICE 2009**Introduction**

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the Council, board or other appropriate body, setting out four amended clauses, which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the Council, board or other appropriate body.

The revised Code has emphasised a number of key areas, which include:

1. All Councils must formally adopt the revised Code and four clauses.
2. The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
3. The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
4. Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
5. Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
6. Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
7. Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
8. The main annual treasury management reports MUST be approved by full Council.
9. There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
10. Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
11. Treasury management performance and policy setting should be subjected to prior scrutiny.
12. Members should be provided with access to relevant training.
13. Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
14. Responsibility for these activities must be clearly defined within the organisation.
15. Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code: -

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement (revised)	Full Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Full Council	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	
Annual Treasury Outturn Report	Full Council	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Policy & Resources Committee	
Treasury Management Practices	Policy & Resources Committee	
Scrutiny of treasury management strategy	Overview & Scrutiny Committee	Annually before the start of the year
Scrutiny of treasury management performance	Overview & Scrutiny Committee	

RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement (see annex C), 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 this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation i.e. 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 its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Corporate Director (s151), who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. This organisation nominates the Overview & Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT POLICY STATEMENT

1. This organisation defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. This organisation 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.

TREASURY MANAGEMENT SCHEME OF DELEGATION

1. Full Council

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

2. Policy and Resources Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment (where outside the scheme of delegation)

3. Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- 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, or appointment within the scheme of delegation

PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

	2008/09	2009/10	2010/11	2011/12	2012/13
Extract from budget setting report	Actual	Probable Outturn	Estimate	Estimate	Estimate
Capital Expenditure	£1.694m	£2.246m	£5.624m	£3.163m	£0.715m
Ratio of financing costs to net revenue stream	-11.27%	-2.92%	-2.42%	-1.79%	-3.48%
Net borrowing requirement	-£14.3m	-£12.0m	-£7.054m	-£4.464m	-£4.491m
Capital Financing Requirement as at 31 March	£0	£0	£0	£2.396m	£2.339m
Annual change in Capital Financing Requirement	£0	£0	£0	£2.396m	-£0.570m
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	N/a	N/a	£4.39	£15.46	£8.44

Treasury Management Indicators

	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Authorised Limit for external debt -					
borrowing	N/a	£20m	£20m	£20m	£20m
other long term liabilities	N/a	£0m	£0m	£0m	£0m
Total	N/a	£20m	£20m	£20m	£20m
Operational Boundary for external debt -					
borrowing	N/a	£5m	£5m	£5m	£5m
other long term liabilities	N/a	£0m	£0m	£0m	£0m
Total	N/a	£5m	£5m	£5m	£5m
Actual external debt	£0	N/a	N/a	N/a	N/a
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	N/a	N/a	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	N/a	N/a	20%	20%	20%
Upper limit for total principal sums invested for over 364 days (per maturity date)	N/a	N/a	£2.5m	£2.5m	£2.5m

SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Sovereign rating	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Per Sector Weekly Credit List	In-house & Fund Manager
Money Market Funds	AAA	In-house & Fund Manager
Banks nationalised by high credit rated (sovereign rating) countries	Per Sector Weekly Credit List	In-house & Fund Manager
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries*	Per Sector Weekly Credit List	In-house & Fund Manager
UK Government support to the banking sector**	Sovereign rating	In-house & Fund Manager

**Banks eligible for support under the UK bail-out package: -

Abbey

Barclays

HBOS

Lloyds TSB

HSBC

Nationwide Building Society

RBS

Standard Chartered

NON-SPECIFIED INVESTMENTS

A maximum of £2.5m will be held in aggregate in non-specified investment

1. Maturities of ANY period

Investment	Minimum Credit Criteria	Use	Maximum Investment	Maximum maturity period
Fixed term deposits with variable rate and variable maturities:				
Structured deposits	Per Sector Weekly Credit List	In-house	£2.5m	2 Years
Commercial paper issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Manager	£2.5m	2 Years
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Manager	£2.5m	2 Years

2. Maturities in excess of 1 year

Investment	Minimum Credit Criteria	Use	Maximum Investment	Maximum maturity period
Term deposits – local authorities	--	In-house	£2.5m	2 Years
Term deposits – banks and building societies	Per Sector Weekly Credit List	In-house	£2.5m	2 Years
Certificates of deposits issued by banks and building societies	Per Sector Weekly Credit List	In house and Fund Manager	£2.5m	2 Years
UK Government Gilts	AAA	In-house and Fund Manager	£2.5m	2 Years
Bonds issued by multilateral development banks	AAA	In-house and Fund Manager	£2.5m	2 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and Fund Manager	£2.5m	2 Years

APPROVED COUNTRIES FOR INVESTMENT

AAA Rating

Canada
Denmark
Finland
France
Germany
Luxembourg
Netherlands
Norway
Singapore
Spain
Sweden
Switzerland
U.K.
U.S.A.

AA+ Rating

Australia
Belgium

AA Rating

Hong Kong
Japan
Kuwait
Portugal *
UAE

AA- Rating

Italy
Qatar (AA- S&P rating)
Republic of Ireland *
Saudi Arabia

* Sector has suggested that clients exercise care and caution when considering placing deposits with Irish and Portuguese banks as their economies and banking systems are currently under severe pressure.

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector interest rate forecast – 23.11.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.25%	2.75%	3.25%	3.50%	3.75%	4.25%	4.25%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	4.60%	4.80%	4.90%	5.00%	5.10%	5.10%	5.15%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB rate	4.80%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

Capital Economics interest rate forecast – 18.1.10

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	3.15%	2.95%	2.65%	2.45%	2.45%	2.45%	2.45%	2.45%
10yr PWLB rate	4.45%	4.15%	3.65%	3.15%	3.15%	3.15%	3.15%	3.15%
25yr PWLB rate	4.75%	4.65%	4.35%	4.05%	3.95%	3.75%	3.75%	3.75%
50yr PWLB rate	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

UBS interest rate forecast (for quarter ends) – 30.10.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%	2.50%	3.00%
10yr PWLB rate	3.90%	4.05%	4.40%	4.75%	4.90%	5.15%	5.40%	5.40%
25yr PWLB rate	4.45%	4.65%	5.00%	5.15%	5.40%	5.65%	5.90%	5.90%
50yr PWLB rate	4.55%	4.75%	5.10%	5.25%	5.50%	5.75%	6.00%	6.00%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury December 2009 – summary of forecasts of 23 City and 12 academic analysts for Q4 2009 and 2010. Forecasts for 2010 – 2013 are based on 21 forecasts in the last quarterly forecast – November 2009.

BANK RATE FORECASTS	quarter ended			annual average Bank Rate			
	actual	Q4 2009	Q4 2010	ave. 2010	ave. 2011	ave. 2012	ave. 2013
Median	0.50%	0.50%	1.30%	0.70%	1.80%	3.00%	3.70%
Highest	0.50%	0.50%	2.30%	1.30%	3.30%	4.30%	4.60%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.40%