

GWYNEDD COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1. This Council defines its treasury management activities as:

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

2. This 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.
3. This 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.

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TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMP's) set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP1 RISK MANAGEMENT

The Head 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 and 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 the schedule to this document.

1.1 Credit and counterparty risk management

This 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 arrangements.

1.2 Liquidity risk management

This 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 it which are necessary for the achievement of its service objectives.

1.3 Interest rate risk management

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

It will achieve this by the prudent use of its approved financing and investment 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.

1.4 Exchange rate risk management

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

1.5 Refinancing risk management

This 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 Council 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.

1.6 Legal and regulatory risk management

This 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 *TMPI.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.

This 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 Council.

1.7 Fraud, error and corruption, and contingency management

This 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.

1.8 Market risk management

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

TMP2 PERFORMANCE MEASUREMENT

This 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 ongoing analysis of the value it adds in support of the Council's stated 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 the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

This Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching 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 the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

The principles 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 this Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Head 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 Head 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 the schedule to this document.

The Head 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 the schedule to this document.

The delegation to the Head of Finance in respect of treasury management are set out in the schedule to this document. The Head of Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMP's and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This 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 the 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, the Full Council/Council Board/Audit Committee/Principal Scrutiny Committee will receive:

- an annual report on the strategy and plan to be pursued in the coming year;
- a mid-year review; and
- 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 Council's Treasury Management Policy Statement and TMP's.

The Full Council/Council Board/Audit Committee/Principal Scrutiny Committee will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such as the audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

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

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance will prepare, and the Council Board will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The Head of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

This 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.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Council will be under the control of the Head 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 Head of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1.2 Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

This 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 the schedule to this document.

TMP10 TRAINING AND QUALIFICATIONS

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

The Head of Finance will ensure that board/council members 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 responsibilities to ensure that they have the necessary skills to complete their role effectively. The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

This Council recognises that responsibility for treasury management decisions remains with the organisation 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 have been submitted to a 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 Head of Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

This 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.

This Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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TMP1 RISK MANAGEMENT

1.1 CREDIT AND COUNTERPARTY RISK

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

1.1.1 Criteria to be used for creating and managing approved counterparty lists and limits.

- a) The Head of Finance will formulate a suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct an authorised counterparty list comprising time, type, sector, investment and specific counterparty limits.
- b) Treasury management staff will add or delete counterparties to or from the authorised counterparty list in line with the policy on criteria for selection of counterparties. Any additions to the counterparty list or increase in the limits will have to be approved by the Council Board.
- c) The Council will use credit ratings to derive its list of counterparties for placing investments with. The Council and Arlingclose, its Treasury Advisors, will continue to maintain a counterparty list and will assess and update the credit standing of the institutions on a regular basis. This assessment will take into account factors such as:
 - i) the individual credit ratings (minimum long term A+);
 - ii) credit default swaps;
 - iii) a country's net debt as a percentage of its Gross Domestic Product;
 - iv) access to government guarantee schemes;
 - v) potential support from a well-resourced parent institution; and
 - vi) its share price.
- ch) Arlingclose, the Council's Treasury Advisors will provide a monthly update of all ratings relevant to the council.
- d) The approved counterparty list is determined by the following criteria: -

Specified Investments

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

Non-Specified Investments

Having considered the rationale and the risk associated with non-specified investments and following advice from the Council's Treasury Management advisors, an annual list of investments is determined for use in appropriate circumstances.

The proposed Specified and Non-Specified Investments and the approved counterparty list are included in the annual Treasury Management Strategy Statement which is approved by Full Council for each financial year. The proposed list for 2011-12 is included as Appendix Dd to this report.

1.1.2 Approved method for changing limits and adding or removing counterparties
Credit ratings will only be used as a starting point when considering credit risk. The Council will make use of generally available market information, such as the factors noted above in 1.1.1c above. The Head of Finance is responsible for applying the stated credit rating criteria in 1.1.1d, for selecting approved counterparties, will add or delete counterparties as appropriate to and from the approved counterparty list, and will adjust lending limits and periods when there is a change in the credit assessment of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to staff in the treasury management function.

Any addition to the list of counterparties or increases to the limits will have to be approved by the Council Board. However, if a downgrade results in a decrease in the limit to be invested with a counterparty, or if the counterparty no longer meets the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. Such action will be reported to the Council Board after the event.

1.1.3 Details of Credit Rating Agencies' Services or other Services which provide current credit ratings and updates on changes.

This Council uses credit ratings from the following credit rating agencies supplied via its treasury management advisers:

- a) Fitch Ratings;
- b) Moody's Investors Services; and
- c) Standard & Poor's.

1.2 LIQUIDITY RISK

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted cost, and that the Council's service objectives will be thereby compromised.

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

The Treasury Management section will try to minimise the balance held in the Council's main bank accounts at the close of each working day by lending surplus cash to its counterparties in order to increase the amount of interest it receives. The Head of Finance may decide that a specific minimum amount of money should be kept on call. He can also place limits on the maximum length of loans made.

1.2.2 Details of:

a) Standby facilities

At the end of each financial day any unexpected surplus funds are moved to the High Interest Bank Account which is available from the Council's main bank. These are instantly accessible if the Group Bank Account becomes overdrawn.

b) Bank overdraft arrangements

A £1m overdraft at 1% above Barclays Base Rate has been agreed as part of the bank tender. The overdraft is assessed on a group basis for the Council's accounts.

c) Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £15m.

ch) Insurance/guarantee facilities

The Council is insured with Zurich Municipal. More details are given in section 1.7.3.

1.3 INTEREST RATE RISK

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the organisation has failed to protect itself adequately.

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

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

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

1.3.2 Minimum/maximum proportions of variable rate debt/interest

- the maximum proportion of interest on borrowing which is subject to variable rate interest. 50%
- the minimum proportion of interest on borrowing which is subject to variable rate interest. 0%

1.3.3 Minimum/maximum proportions of fixed rate debt/interest

- the minimum proportion of interest on borrowing which is subject to fixed rate interest. 50%
- the maximum proportion of interest on borrowing which is subject to fixed rate interest. 100%

1.3.4 Policies concerning the use of financial derivatives for interest rate management.

a) Forward Dealing

Consideration will be given to dealing from forward periods dependant upon market conditions. Forward dealing will only be undertaken with the prior approval of the Head of Finance.

b) Callable Deposits

Consideration will be given to using callable deposits. Callable deposits will only be undertaken with the prior approval of the Head of Finance.

c) LOBO's (borrowing under lender's option/borrower's option)

Consideration will be given to using LOBO's. LOBO's will only be undertaken with the prior approval of the Head of Finance.

1.4 EXCHANGE RATE RISK

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the organisation has failed to protect itself adequately.

1.4.1 Approved criteria for managing changes in exchange rate levels

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.

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

1.5 REFINANCING RISK

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.5.1 Debt / other capital financing maturity profiling, policies and practices

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

- a) savings in interest costs with minimal risk;
- b) balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio; and
- c) amending the profile of maturing debt to reduce any inherent refinancing risks.

Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy, and will be reported to the Portfolio Leader following its action. If she believes its a matter of substance, it will also be reported to the Council Board.

1.5.2 Projected capital investment requirements

The accountancy section will prepare a three year plan for capital expenditure for the Council. This will be in accordance with the Government's capital consent guidelines. The capital plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

1.5.3 Policy concerning limits on revenue consequences of capital financing.

The revenue budget for loan charges is based on the capital plan and prudential borrowing plans. The main source of borrowing for the council is the PWLB.

1.6 LEGAL AND REGULATORY RISK

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses according.

1.6.1 References to relevant statutes and regulations

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

- a) CIPFA's Treasury Management Code of Practice 2009;
- b) CIPFA Standard of Professional Practice on Treasury Management;
- c) Local Government and Housing Act 1989;
- ch) Council's Standing Order relating to Contracts;
- d) Council's Financial Regulations; and
- dd) Council's Scheme of Delegated Functions.

1.6.2 Procedures for evidencing the Council's powers and or authorities to counterparties

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

- a) a Treasury Management Policy Statement, stating the overriding principles and objectives of its treasury management activities and, as an integral part of that statement,
- b) Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.6.3 Required information from counterparties concerning their powers and authorities

Lending shall only be made to counterparties on the Authorised list. This list has been compiled from advice from the Council's treasury advisers, who have fully researched the background and credit of counterparties. This assessment takes into account a number of factors, which are listed in 1.1.1c above.

1.6.4 Statement on the Council's political risks and management of same

The Head of Finance shall take appropriate action with the Council, the Chief Executive and the Council Leader to respond and manage appropriately political risks such as change of majority Group, Leadership etc.

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

The risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.7.1 Details of systems and procedures to be followed, including Internet services.

- a) Loan procedures will be defined in the Council's Financial Regulations.
- b) The Scheme of Delegation to Officers will set out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Head of Finance or authorised persons.

Occurrence:

- a) A detailed register of loans and investments is maintained on spreadsheets in the Treasury Management system.
- b) This is independently checked to the ledger balance.
- c) Adequate and effective cash flow forecasting records are maintained on the Treasury Management system to support the decision to lend or borrow.
- ch) A written acknowledgement of the deal is sent promptly to the lending institution.
- d) Written confirmation is received from the PWLB for each loan.
- dd) All transactions placed through the brokers are confirmed by a broker note showing details of the loan arranged.

Completeness:

- a) The loans register is updated to record all lending and borrowing. This includes the date of the transaction, date of maturity, interest rate etc.

Measurement:

- a) The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Treasury Management system.
- b) The Treasury Management system automatically calculates the interest payments due on PWLB and other long term loans. This is then used to check against the actual amount paid to these lenders.
- c) Average weighted capital loans fund interest rates and debt management expenses are calculated quarterly using information from the financial ledger and accrual prints from the Treasury Management system.
- ch) These interest and expense rates are then used to calculate the principal, interest and debt management expense charges.

Timeliness:

- a) The Treasury Management system prompts the Control Technician that money borrowed or lent is due to be repaid.

Regularity:

- a) All lending is only made to institutions on the Approved List.
- b) All loans raised and repayments made go directly to and from the institutions bank account.
- c) Authorisation limits are set for every institution.
- ch) Brokers have a list of named officials authorised to perform loan transactions.
- d) There is adequate insurance cover for employees involved in loans management and accounting.
- dd) The control totals on the Treasury Management system for borrowing and lending are regularly reconciled with the ledger balance sheet codes by the Pensions and Investments Officer.
- e) There is a separation of duties in the Section between the repayment of a loan and its checking and authorization.
- f) Bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- ff) The treasury management team and the income team have an up to date financial code list.

Security:

- a) Treasury Management systems can only be accessed by authorised staff.
- b) Payments can only be authorised by an agreed cheque signatory. The list of signatories having previously been agreed with the current provider of our banking services.

Substantiation:

- a) The Treasury Management system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end. Working papers are retained for audit inspection. A debt charge/investment income listing is produced every time the debt charges/investment income are recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year end and this document is retained for audit inspection

1.7.2 Emergency and contingency planning arrangements

- a) The Treasury System software can be accessed from any PC in the Council subject to authorised use.
- b) If the electronic banking system fails, then CHAPS payments instructions can be given over the phone. Bank balances can also be obtained over the phone.

1.7.3 Insurance cover details

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The Council also has 'Business Interruption' cover with Zurich Municipal.

The Council is currently out to tender for insurance cover and the details of the successful tenderer will be added to this document when the contract has been awarded.

1.8 MARKET VALUE OF INVESTMENTS**1.8.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate.**

The use of investments for which capital may fluctuate is restricted to situations where it is necessary to ensure a safe haven at any future time of banking stress.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT**2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS**

An annual report is presented to the Audit Committee for treasury management matters at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. The content of the annual report will be comprehensive, covering the whole of the financial activities of the treasury operation and include annual measurements of performance. Our Treasury Management consultants review our existing debt portfolio twice yearly and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1 Frequency and processes for tendering

The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.2.2 Banking services

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

2.2.3 Money-broking services

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

2.2.4 Consultants'/advisers' services

The Council have appointed professional treasury management consultants and leasing advisory consultants.

2.2.5 Policy on External Managers (Other than relating to Superannuation Funds)

This Council does not use an external investment fund manager to manage a proportion of surplus cash.

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

2.3.1 Performance measured against Annual Treasury Strategy Statement targets;

2.3.2 Compliance to CIPFA Code of Treasury Practice;

2.3.3 Expenses contained within approved budget.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY:

2.4.1 Debt management

a) Average rate on all external debt;

b) Average rate on external debt borrowed in previous financial year.

2.4.2 Investment

The performance of in house investment earnings will be measured against 7 day LIBID.

TMP3 DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

The Treasury section has a computerised treasury management system. All loan transactions are recorded on the system. Full details of the system are covered in the user manual.

The following records will be used relative to each investment:

- a)** A printout of the bank balance at the start of each day. (The cleared balance shown on the printout is used as a starting point for the daily cash projection);
- b)** A cashflow sheet is filled in and signed by the person who has completed it. The sheet is then checked by another person. (The cashflow sheet is used for daily cash projections, as it details the opening bank balance and all investments coming in or payments going out of the accounts);
- c)** Dealing telephone conversations are recorded. (Old tapes are kept in a locked cupboard until all the investments on the tape have matured);
- ch)** When investments are made the deals are documented on lending sheets. Separate lending sheets have to be filled in for all individual investments. The lending sheet shows the date the investment is made, the counterparty involved, the broker, the amount invested, duration of the loan and the rate of interest;
- d)** A letter is also sent to the counterparty, showing the dealer, amount, period, counterparty, interest rate, repayment date and repayment details. Written confirmation of the terms of the deal should be received from the broker and /or the counterparty;
- dd)** All the investment details are then input into the computerised treasury management system.

The following records will be used relative to each loan:

- a)** A PWLB Advances form needs to be filled in. The application needs to be authorised by the Strategic Director of Resources, the Head of Finance or Senior Manager (Finance) before the transaction can be carried out;
- b)** A written confirmation of the deal should be received from the PWLB. The confirmation should include information such as the date of the advance, the fee paid, the principal, period for repayment and the annual rate of interest;
- c)** The loan details are then input into the computerised treasury management system.

3.1.2 Processes to be pursued

- a)** Cash flow analysis;
- b)** Ledger reconciliations;
- c)** Quarterly review of borrowing requirement;
- ch)** Monitoring projected loan charges and interest and expenses costs;
- d)** Review of opportunities for debt rescheduling;
- dd)** Collation of monthly performance information.

3.1.3 Issues to be addressed

3.1.3.1 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 Council 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 Council's objectives and protect the Council's interest, and to deliver good housekeeping;
- ch) ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
- d) be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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

- a) consider the alternative interest rate bases available, the most appropriate period to fund and repayment profiles to use;

3.1.3.3 In respect of investment decisions, the Council will:

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

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

4.1.1 The approved activities of the Treasury Management operation are as follows:

- a) borrowing funds;
- b) investing surplus funds;
- c) debt management, including rescheduling;
- ch) managing interest rate exposure;
- d) consideration, approval and use of new financial instruments and treasury management techniques;
- dd) managing the daily cash flow and long-term forecasting thereof;
- e) banking activities; and
- f) leasing;

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

4.2.1 All investments will comply with the Local Authorities Capital Finance Approved Investment Regulations 1990 SI 426 and subsequent amendments. The instruments used will be:

- a) term deposits with banks and building societies up to a maximum of 5 years;
- b) term deposits with other Local Authorities up to a maximum of 1 year;
- c) money market funds that meet the criteria set in SI 451 of 2002.

4.2.2 The Head of Finance will be responsible for constructing a list of institutions in whom the Council's funds may be invested, together with any specific counterparty limits relating thereto. The current recommended list is in the Treasury Management Strategy Statement.

4.3 APPROVED TECHNIQUES

- a) This Council does not use forward dealing up to 364 days;

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

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

On Balance Sheet	Fixed	Variable
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Leasing (not operating leases)	●	●
Other Methods of Financing		
Government and EC Capital Grants		
Lottery monies		
PFI/PPP		
Operating leases		

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

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS

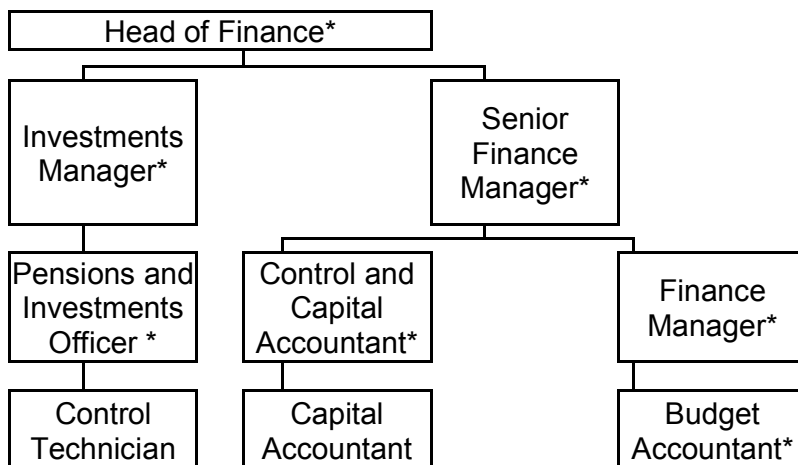
- a) The Council Board will receive and review reports on treasury management policies, practices and activities as well as the proposed annual treasury management strategy.
- b) The Portfolio Leader will receive reports on any debt rescheduling and will refer the report to the Council Board if she believes it is a matter of substance.
- c) The Audit Committee will receive the annual report on the actual treasury management strategy against that which was expected.
- Ch) The Head of Finance will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- d) The Head of Finance will approve the segregation of responsibilities.
- dd) The Head of Finance will receive and review external audit reports and put recommendations to the Audit Committee.
- e) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Corporate Director and the Head of Finance in accordance with Financial Regulations.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Head of Finance, Senior Finance Manager or the Investments Manager authorises all new long-term borrowing. Once authorisation has been given the Pensions and Investments Officer will then carry out the transaction.

Transactions relating to pre-existing agreements are delegated to the Pensions and Investments Officer. Short term borrowing and investment is authorised by the authorised signatories listed below.

5.3 TREASURY MANAGEMENT ORGANISATION CHART



* Authorised Signatories

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Head of Finance

The Head of Finance will:

- a) Recommend treasury management policy to the Council Board for approval, reviewing the same on a regular basis, and monitoring compliance;
- b) Submit treasury management policy reports to the Audit Committee as required;
- c) Submit budgets and budget variations in accordance with Financial Regulations and guidance;
- ch) Receive and review management information reports;
- d) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- dd) Ensure that at all times those engaged in treasury management follow the approved policies and procedures.
- e) Ensure the adequacy of internal audit, and liaising with external audit.

The Head of Finance has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

The Head of Finance may delegate his power to borrow and invest to members of his staff. All transactions must be authorised by at least one authorised signatory.

The Head of Finance will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

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

5.4.2 Investments Manager

The responsibilities of this post will be: -

- a) To prepare a draft Treasury Management Policy for approval, reviewing the same on a regular basis, and monitoring compliance;
- b) To prepare Management Information Reports for approval, reviewing the same on a regular basis, and monitoring compliance;
- c) Preparing reports and statistics on Treasury Management Performance;
- ch) To supervise all activities of the Pension and Investments Officer and other staff undertaking Treasury Management Duties;
- d) Recommend the appointment of external service providers in accordance with council standing orders.

5.4.3 Pensions and Investments Officer

The responsibilities of this post will be: -

- a) Assisting the Investments Manager to prepare a draft Treasury Management Policy and Management Information Reports;
- b) Assisting the Investments Manager to prepare reports and statistics on Treasury Management Performance;
- c) Execution of transactions;
- ch) Adherence to agreed policies and practices on a day-to-day basis;
- d) Maintaining relationships with third parties and external service providers;
- dd) Supervising treasury management staff;
- e) Monitoring performance on a day-to-day basis;
- f) Submitting management information reports to the responsible officer;
- ff) Identifying and recommending opportunities for improved practices;
- g) In the absence of both the Control Technician and the Control Accountant, carrying out the day-to-day cash flow function.

5.5 ABSENCE COVER ARRANGEMENTS

Refer to the organisation chart at 5.3 above and role responsibilities at 5.4 above.

5.6 LIST OF APPROVED BROKERS

The following brokers may be used by the Council:-

- a) Prebon Yamane (UK) Ltd;
- b) Icap Ltd;
- c) Sterling Brokers Ltd;
- ch) City Deposit Brokers Ltd;
- d) Martin Brokers (UK) Plc;
- dd) King & Shaxson.

5.7 POLICY ON BROKERS' SERVICES

The Council will attempt to spread business between brokers. This, however, is secondary to the need to obtain the best possible rates.

5.8 POLICY ON TAPING OF CONVERSATIONS

The Council records all conversations with brokers or counterparties confirming deals or passing payment and other instructions. The tapes are kept in a locked cupboard until all the investments on the tape have matured.

5.9 DIRECT DEALING PRACTICES

The Council does deal direct with some counterparties. It has been found that direct dealing can bring additional benefits such as better interest rates.

5.10 SETTLEMENT TRANSMISSION PROCEDURES

This is a four stage process, involving at least three different members of staff. Each person has to sign against the relevant heading on the "Taliadau CHAPS" form to confirm that they have carried out their part of the work. The four stages are as follows:

- a) The Control Technician (or whoever has done the cashflow in his absence), inputs the data into Barclays Business Internet Banking (BBIB). The data includes the counterparty's name, bank account details and the amount of money to be transmitted to them. Once he has completed this, he then signs beside the "Input" heading on the form. He then takes the form to the Control Accountant (or someone else in his absence);
- b) The Control Accountant (or someone else in his absence), checks the calculations to ensure that all the details on this form are correct. He has to check that the bank or building society is on our list of counterparties and that we do not breach our maximum deposit limit with them. He also has to check the sort code and bank account details against the laminated list of counterparties. Once he has completed checking the details, if everything is correct he then signs the "Checked" part of the form. He then gives the form to one of the authorised officers;
- c) The authorised officer will have to log on to BBIB, to check that the details have been input correctly and to verify the payment. The officer then signs the "Verified" part of the form and passes the form on to another authorised officer;
- ch) Another authorised officer logs on to BBIB and checks that the details are correct and authorises the payment. The authorised officer checks that the status of the payment is "completed" on the View Payments screen, signs the "Authorised" part of the form and gives it back to the Control Technician (or whoever has done the cashflow in his absence), who then files the form.

In some instances, due to staff shortages, part b) and c) have been carried out by the same person. However, for steps a), c) and ch), BBIB will not allow the same person to do more than one step.

The transmission has to be completed before 2.30pm on the same day.

5.11 DOCUMENTATION REQUIREMENTS

For each deal undertaken a lending sheet will be filled in giving details of the loan number, counterparty, amount, period, interest rate, dealing date, payment date(s), broker, bank account details and also the reason for making the loan for the specified period. This is then signed by the Control Technician and then by an authorised officer.

5.12 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The Head of Finance is responsible for dealing with funds on behalf of third parties (e.g. school trust funds). He is mindful of the implications of the Financial Services Act 1986 when dealing with these funds.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 CONTENT AND FREQUENCY OF BOARD REPORTING REQUIREMENTS

6.1.1 Annual Treasury Management Strategy Statement

The Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council Board for approval at or before the commencement of each financial year. The Strategy is based upon the current views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The Treasury Management Strategy is concerned with the following elements:

- a) the current treasury management portfolio position;
- b) the treasury limits in force which will limit the treasury risk and activities of the Council;
- c) prospects for interest rates;
- ch) capital borrowings and the borrowing portfolio strategy including the Capital Financing Requirement;
- d) temporary investments strategy;
- dd) the extent of debt rescheduling opportunities;
- e) surplus cash.

Should it be necessary to make any amendments to the strategy then the Head of Finance will submit the changes for approval to the Council Board.

6.1.2 Borrowing Limits

The Council approves before the beginning of each financial year the following treasury limits:

- a) the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;
- b) the maximum proportion of interest on borrowing which is subject to variable rate interest.

The Head of Finance is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits.

Should it prove necessary to amend these limits, the Head of Finance shall submit the changes for approval to the Council Board.

6.2 CONTENT AND FREQUENCY OF MANAGEMENT INFORMATION REPORTS

6.2.1 Treasury Management Report

An annual report is presented to the Audit Committee at the earliest practicable meeting after the end of the financial year, but in any case by the end of September.

This report includes the following:-

- a) a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- b) details of transactions executed;
- c) measurements of performance;
- ch) degree of compliance with Treasury Limits.

6.2.2 Monitoring

A mid year review of treasury management for the period to 31 August is presented to the Audit Committee for information and scrutiny in September. Regular monitoring reports on treasury management activities and risk are presented to the Audit Committee as required.

6.2.3 Scrutiny

The Audit Committee/Principal Scrutiny Committee scrutinises the treasury management policies and practices as well as the Annual Strategy and Investment Strategy prior to their submission to the Council Board.

6.2.4 Debt Rescheduling Report

If any debt rescheduling is undertaken it will be reported to the Portfolio Leader following its action. If she believes its a matter of substance, it will also be reported to the Board.

6.2.5 Other Management Reports

Management information reports will be prepared quarterly by the Pensions & Investments Officer and will be presented to the Head of Finance.

These quarterly reports will contain the following information:-

- a) monthly measurement of investment performance against the 7 day LIBID (average for the month) during the financial year;
 - b) a summary to date of all investment undertaken during the financial year;
 - c) a summary to date of all borrowing undertaken during the financial year.
- Measurement of performance can only be made after the end of the financial year.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

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

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Codes of Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA's 'Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance' (the 'CIPFA Code and Guide').

7.3 SAMPLE BUDGETS / ACCOUNTS

A budget for interest, expenses and loan charges costs is prepared as part of a budget setting exercise, and is monitored quarterly.

7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS.

7.4.1 Loans

The information requirements of External Auditors are as follows:

- a) Reconciliation of the balance of loans outstanding at the end of the financial year to the financial ledger;
- b) Maturity analysis of the loans outstanding;
- c) Reconciliation of loans interest and premiums paid to the financial ledger by loan type;
- ch) Reconciliation of interest accruals report from PWLB and Market Loan Schedules to the ledger;
- d) Calculation of loans fund interest and debt management expenses;
- dd) Details of all new borrowing undertaken during the year;
- e) Details of all debt rescheduling undertaken during the year.

7.4.2 Investments

The information requirements of External Auditors are as follows:

- a) Reconciliation of the investments outstanding at the end of the financial year to the financial ledger;
- b) Reconciliation of the interest received during the year;
- c) Reconciliation of the interest accrued at the end of the financial year.

TMP8 CASH AND CASHFLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING CASH FLOW PROJECTIONS

Cash flow projections are prepared daily and on an annual basis. The annual cash flow projections are monitored on a quarterly basis and are adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

The following are included in the cash flow projections:

- a) Pay runs – weekly, fortnightly and monthly;
- b) Pensions Paid - last working day of the month;
- c) Housing Benefit Subsidy - monthly;
- ch) Creditors - three times a week;
- d) Council Tax, and NDR;
- dd) RSG - various;
- e) PWLB & Market Loans principal and interest – various;
- f) Precepts - various.

8.3 LISTING OF SOURCES OF INFORMATION

- a) TR126(a)'s or payroll for pay runs;
- b) TR126(b)'s or payroll for pensions;
- c) Remittance Advice received at least a week in advance from the Welsh Assembly informing us of the amount and the date the money will be credited to the Council's bank account;
- ch) TR126(a)'s for creditor details;
- d) Information on Council Tax and NDR received from the Revenues Department;
- dd) Prior to each financial year, the Welsh Assembly send us a schedule for payments of RSG. The RSG is paid over to us in instalments over the course of the year. The schedule shows the date each instalment is paid and the amount that will be paid;
- e) Treasury Management System for interest and loans premium payments. Also the PWLB send us Schedules of Loan Repayments a couple of weeks in advance of the due date;
- f) Prior to each financial year, details are received from the North Wales Police Authority, Fire Authority, Environment Agency etc.

8.4 BANK STATEMENTS PROCEDURES

Statements for all income accounts are uploaded daily from banking system. The transactions are then coded and the document used to input the information into the cash receipting system. The cash receipting interface which is run daily after close of business then updates the general ledger and relevant sub-systems. All income transactions to the bank are checked daily to the general ledger and a reconciliation statement is produced at the end of each month.

8.5 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

Unless there are other agreed terms of trade with creditors, our policy is normally to pay creditors within 30 days of the invoice date. However, in line with Welsh Assembly requirements payments are, where possible, made within 10 days to businesses to assist their cash flow in the difficult financial climate. This policy will be reviewed in light of any changes to Welsh Assembly requirements. Certificated payments to sub-contractors must be paid within 14 days.

8.6 ARRANGEMENTS FOR MONITORING DEBTOR AND CREDITOR LEVELS

Interested parties in service departments are provided with monthly reports detailing debts outstanding. Rates of collection and analysis of aged debts are monitored quarterly by producing and providing reports to the Head of Finance and the Central Efficiency Unit. The bad debt provision is calculated annually based on the aged debt analysis at year end.

Creditors section provide Head of Finance with quarterly statistics of invoices sent by each department and the percentage paid within 10 days and 32 days.

8.7 PROCEDURES FOR BANKING OF FUNDS

As per the financial regulations all cash and cheques received by an Officer on behalf of the Council is either banked directly or via the Council's cashiers on a daily basis or within a timescale stipulated by the Head of Finance with no deductions permitted.

TMP9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY AND AUTHENTICITY OF LENDERS

The Council does not usually accept loans from individuals. The small number of loans which are accepted by the Council from individuals are not material. Before accepting these loans the Council will confirm the identity of the lender. All material loans are obtained from the PWLB, other local authorities or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).

9.2 METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. Loans are also made to qualifying local businesses under the Local Loans Fund Scheme.

TMP10 TRAINING AND QUALIFICATIONS

10.1 STAFF

10.1.1 DETAILS OF APPROVED TRAINING COURSES

Details of staff training needs will be identified as part of the training needs analysis undertaken during the Staff Appraisal.

10.1.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF

Training and training updates will be provided as appropriate on the Treasury Management system.

10.1.3 CAREER DEVELOPMENT/SUCCESSION ARRANGEMENTS

Treasury Management seminars will be attended as appropriate.

10.1.4 APPROVED QUALIFICATIONS FOR TREASURY STAFF

The Head of Finance is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in treasury management activities are committed towards compliance with the SORP.

10.2 COUNCILLORS

10.2.1 ACCESS TO TRAINING

In accordance with the CIPFA Code appropriate training will be provided for Councillors with responsibility for Treasury Management as required.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

11.1.1 Banking services

- a) Name of supplier of service is Barclays Bank Plc. The branch address is:
Barclays Bank Plc
Business Centre
Raymond Court
Princes Drive
Colwyn Bay
LL29 8HT

Tel: 01492 613370
- b) Contract commenced on 01 October 2010 and runs for 5 years until 30 September 2015 with an option to extend on an annual basis for 2 additional years.
- c) Cost of service is variable depending on volumes. The tender prices charged will remain fixed for the duration of the first 12 months of the contract. Thereafter the charges will increase in line with the Retail Price Index.

11.1.2 Money-broking services

Name of suppliers of service:

- | | | |
|-----|-----------------------------|--------------------|
| a) | Prebon Yamane (UK) Ltd :- | Tel: 0207 200 7042 |
| b) | Icap Ltd:- | Tel: 0207 532 3550 |
| c) | Sterling Brokers Ltd :- | Tel: 0207 407 2593 |
| ch) | City Deposit Brokers Ltd :- | Tel: 0207 422 3566 |
| d) | Martin Brokers (UK) Plc :- | Tel: 0207 469 9580 |
| dd) | King and Shaxson :- | Tel: 0207 929 8529 |

11.1.3 Consultants'/advisers' services

Treasury Consultancy Services

Name of supplier of service is Arlingclose Limited. Their address is:

60 Moorgate
London
EC2R 6EL

Tel: 08448 808 200
Fax: 08448 808 205

Leasing Consultancy Services

Name of supplier of the service is Arlingclose Limited. Their address is:

60 Moorgate
London
EC2R 6EL

Tel: 08448 808 200
Fax: 08448 808 205

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES
See TMP2, Paragraph 2.2

TMP12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

- a) Annual Accounts;
- b) Annual Budget;
- c) 3 Year Capital Plan;
- ch) Treasury Management Policy;
- d) Treasury Management Strategy;
- dd) Annual Treasury Report;
- e) Access to minutes at libraries.

**TREASURY MANAGEMENT STRATEGY STATEMENT
AND ANNUAL INVESTMENT STRATEGY 2011/12 TO 2013/14**

1. Introduction

CIPFA has defined Treasury Management as:

“the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The Council always seeks to achieve the best possible rate of interest commensurate with the risk it is willing to take. The main risks to the Council’s treasury activities are:

- Liquidity Risk (Inadequate cash resources);
- Market or Interest Rate Risk (Fluctuations in interest rate levels);
- Inflation Risk (Exposure to inflation);
- Credit and Counterparty Risk (Security of Investments);
- Refinancing Risk (Impact of debt maturing in future years);
- Legal & Regulatory Risk.

In addition, the strategy takes into account the impact of the Council’s Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

The purpose of this Treasury Management Strategy Statement is to approve the:

- Treasury Management Strategy for 2011-12;
- Prudential Indicators;
- Minimum Revenue Provision (MRP) Statement; and
- Use of Specified and Non-Specified Investments.

2. Balance Sheet and Treasury Position

The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) together with Balances and Reserves are the core drivers of Treasury Management Activity. The estimates are set out below:

	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
CFR	149.9	164.2	167.4	169.8
Balances & Reserves	(51.9)	(42.8)	(40.2)	(37.6)
Net Balance Sheet Position	98.0	121.4	127.2	132.2

Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

The Council's estimated treasury management portfolio position is as follows:

	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing:				
Fixed Rate – PWLB	102.5	97.7	96.4	95.3
Fixed Rate – Market	16.2	16.2	16.2	16.2
IFRS long-term liabilities:				
- Operating Leases	0.2	0.2	0.2	0.2
Total External Debt	118.9	114.1	112.8	111.7
Total Investments	(51.9)	(42.8)	(40.2)	(37.6)
Net Borrowing Position/ (Net Investment position)	67.0	71.3	72.6	74.1

* *PWLB – Public Works Loan Board*

3. Outlook for Interest Rates

The interest rate outlook as at January 2011, is provided by the Council's treasury advisor, Arlingclose Ltd, and is shown below.

	Mar 2011	Jun 2011	Sept 2011	Dec 2011	Mar 2012	Jun 2012	Sept 2012	Dec 2012	Mar 2013	Jun 2013
Official Bank Rate										
Upside risk	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk			-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
1-yr LIBID										
Upside risk	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	1.65	1.90	2.15	2.40	2.50	2.50	2.75	3.00	3.25	3.50
Downside risk	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr Gilt										
Upside risk	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	2.75	3.00	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr Gilt										
Upside risk	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central Case	3.90	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr Gilt										
Upside risk	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central Case	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr Gilt										
Upside risk	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	4.25	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Arlingclose's interest rate view at January 2011 is that the Bank Rate:-

- will remain at 0.50% until Q3 2011 when it will rise to 0.75%, to 1.00% in Q4 2011 and 1.25% in Q1 2012.
- it is expected that it will continue its gentle rise until it reaches 2.75% in Q1 2013.

The path of base rate reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates. Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Their economic forecast at January 2011 is as follows:

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt are as announced in June and focuses on how the cuts are to be distributed. The next fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's December meeting suggested a movement away from further Quantitative Easing. Despite Money Supply being weak and growth prospects remaining subdued the MPC have gravitated towards increasing rates in the new year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in January as VAT, Utilities and Rail Fares are increased.
- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rates of growth, despite Q3's fairly strong performance.

4. Borrowing Requirement and Strategy

The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix D. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.

Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

The cumulative estimate of the long-term borrowing requirement is as follows:

	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
Capital Financing Requirement	149.9	164.2	167.4	169.8
Less: Existing Profile of Borrowing and Other Long Term Liabilities	(118.9)	(114.1)	(112.8)	(111.7)
Maximum External Borrowing Requirement	31.0	50.1	54.6	58.1
Balances & Reserves	(51.9)	(42.8)	(40.2)	(37.6)
Net Borrowing Requirement / (Investments)	(20.9)	7.3	14.4	20.5

The Council's strategy is to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

In conjunction with advice from its treasury advisor, Arlingclose, the Council will keep under review the options it has of borrowing up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).

The Borrowing Strategy

Against a backdrop of interest rates remaining lower for longer than borrowing long term funds as they are required may remain appropriate.

The PWLB remains the preferred source of borrowing given the transparency and control that its facilities continue to provide. However other forms of borrowing must be considered on their merits since the CSR increased the cost of PWLB loans on 20th October 2010 from around 0.15% to 1.00% over Gilts.

5. Debt Rescheduling

The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility and the steep yield curve may provide opportunities for rescheduling debt from time to time.

The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk;
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio; and
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy, and will be reported to the Portfolio Leader following its action. If she believes its a matter of substance, it will also be reported to the Board.

6. Investment Policy and Strategy

Guidance from the Welsh Assembly Government on Local Government Investments requires the setting of an Annual Investment Strategy (AIS).

Investment Policy

To comply with this Guidance, the Council's general policy objective is the prudent investment of its treasury balances. The Council's investment priorities are the security of its capital and liquidity of its investments rather than yield. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories.

Specified Investments:

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

	Minimum 'High' Credit Criteria	Use	Maximum Period
Debt Management Account Deposit Facility (DMADF)	High Security although DMADF is not credit rated.	In-house	1 year
Term Deposits with Local Authorities	High Security although Local Authorities are not credit rated.	In-house	1 year
Term Deposits and Certificates of Deposit with banks and building societies including callable deposits with maturities up to 1 year.	Short Term minimum F1 or equivalent. Long Term minimum A+ or equivalent. The Council will also take into account information on corporate developments of and market sentiment toward investment counterparties.	In-house	1 year
Gilts (DMO)*	High Security – issued by Government	In-house	1 year
Treasury bills *	High Security – issued by Government	In-house	1 year
Local Authority bills *	High Security although Local Authorities are not credit rated.	In-house	1 year
Bonds issued by multilateral development banks. *	EIB, Council of Europe, Inter American Investment Bank	In-house	1 year

* These are new additions to the list and investment in these instruments will be on advice from the Council's treasury advisor. They are only likely to be used to ensure a safe haven at any future time of banking stress.

Non-Specified Investments:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	Minimum Credit Criteria	Use	Maximum Maturity Period	Maximum % of Portfolio
Term Deposits and Certificates of Deposit with banks and building societies	Short Term minimum F1 or equivalent. Long Term minimum A+ or equivalent. The Council will also take into account information on corporate developments of and market sentiment toward investment counterparties.	In-house and Fund Managers	2 years	50% of all the Council's portfolio.
Gilts (DMO)*	High Security – issued by Government	In-house	6 years	No limit
Bonds issued by financial institutions guaranteed by the UK government *	High Security –guaranteed by Government	In-house	6 years	50% of all the Council's portfolio.
Sterling denominated bonds by non-UK sovereign governments *	Minimum AA+ credit rating.	In-house	3 years	50% of all the Council's portfolio.
Bonds issued by multilateral development banks. *	EIB, Council of Europe, Inter American Investment Bank	In-house	6 years	50% of all the Council's portfolio.
Money Market Funds	AAAm	In-house and Fund Managers	Daily Liquidity	50% of all the Council's portfolio.
Business loans to local companies **	As agreed by the Local Loans Fund scheme.	In-house	10 years	10% of all the Council's portfolio

* These are new additions to the list and investment in these instruments will be on advice from the Council's treasury advisor. They are only likely to be used to ensure a safe haven at any future time of banking stress.

** Advancement of these loans will be approved by the procedure detailed below. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

The credit crisis has refocused attention on the treasury management priority of security of the capital invested. The Council uses credit ratings to derive its counterparty list (Appendix Dd). The Council and its Treasury Advisors, Arlingclose, will continue to maintain a counterparty list and will assess and update the credit standing of the institutions on a regular basis. This assessment will take into account factors such as:

- the individual credit ratings (minimum long term A+ for counterparties; AA+ for countries);
- credit default swaps (where available);
- a country's net debt as a percentage of its Gross Domestic Product;
- access to government guarantee schemes;
- potential support from a well-resourced parent institution;
- its share price (where available);
- macro-economic indicators; and
- corporate developments, news and articles, market sentiment.

If a downgrade results in a counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

The Council has approved the setting up a Local Loans Fund which will make loans to local businesses. These investments are included in the Non-Specific Investments table above and will be for a maximum of 10 years. The total value of the fund for such investments will be £3million. Applications for loans under this scheme will not be part of the usual credit assessment for treasury management investment purposes but will be assessed by appointed consultants and any decision to lend will be made by the Investment Panel for the scheme.

Investment Strategy

The Council's in-house managed funds are mainly cash-flow derived. Given due consideration to the Council's level of cash balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, the Council has determined that £40m of its overall cash balances may be held in non-specified investments during the year.

The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.

In order to diversify the counterparty list (Appendix Dd) the use of comparable non-UK Banks for investments was introduced in 2010/11. Amendments have been made to the list for 2011/12 to include Sweden as an approved sovereign state. Spain has been removed and 6 banks have been added to the list. These countries, and the Banks within them have been selected after careful assessment of the factors noted above. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these factors and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

7. Balanced Budget Requirement

The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2011/12 MRP Statement

The Local Authorities (Capital Finance and Accounting)(Wales)(Amendment) Regulations 2008 [SI 2008/588 (W.59)] place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Assembly Government and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

For capital expenditure incurred before 1st April 2008 or which in the future will be supported capital expenditure, the MRP policy will be based on the Capital Financing Requirement at 4% of the opening balance less an adjustment (‘A’) (Option 1). “Adjustment A” was intended to achieve neutrality between the CFR and the former Credit Ceiling which was used to calculate MRP prior to the introduction of the Prudential System on 1st April 2004.

From 1st April 2008, for all unsupported borrowing, exercised under the Prudential Code, the MRP policy will be based on the Asset Life Method (Option 3). The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will be delayed until the asset is operational.

Estimated asset life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

MRP in respect of PFI and leases brought on Balance Sheet under the 2010 Code and IFRS will match the annual principal repayment for the associated deferred liability.

Where the Council provides loans to external bodies which are classified as capital expenditure the capital receipts received for repayment of principal will be used to finance the original expenditure thus removing the requirement for MRP except in cases of default, unless alternative financing is available.

The Authority will be reviewing this policy annually in light of the Asset Management Plan.

9. Reporting on the Treasury Outturn

The Head of Finance will report to Audit Committee on treasury management activity and performance as follows:

- (a) Mid year and year end review against the strategy approved for the year;
- (b) Outturn report on its treasury activity no later than 30th September after the financial year end;
- (c) The Principal Scrutiny Committee/Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

10. Other items

Member Training

CIPFA's revised Code requires the Head of Finance to ensure that members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Formal training, possibly sourced externally may be provided for relevant members during 2011/12.

PRUDENTIAL INDICATORS 2011/12 - 2013/14

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008. The outcome from that review has yet to be published.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted by the full Council on 4 March 2004. This code has been reviewed and the revised requirements are shown in appendices A, B and C of this report.

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13	2013/14
(1) CAPITAL PRUDENTIAL INDICATORS REPORT	actual	estimate	estimate	estimate	estimate
a) Capital Expenditure	£'000	£'000	£'000	£'000	£'000
General Fund	36,935	43,349	34,173	23,198	22,498
Housing Revenue Account (HRA)	7,050	315	0	0	0
TOTAL	43,985	43,664	34,173	23,198	22,498
b) Ratio of financing costs to net revenue stream					
General Fund	5.05%	5.86%	5.68%	5.36%	5.07%
HRA	6.71%	-	-	-	-
c) Capital Financing Requirement as at 31 March	£'000	£'000	£'000	£'000	£'000
General Fund	147,783	149,865	164,218	167,369	169,791
HRA	14,211	0	0	0	0
TOTAL	161,994	149,865	164,218	167,369	169,791
d) Incremental impact of capital investment decisions			£	£	£
i) Increase in council tax (band D) per annum (per Code guidance)	-	-	9.35	31.87	47.36
ii) Increase in council tax (band D) per annum (local indicator)	-	-	-	10.08	4.03

Notes on the Capital Prudential Indicators:

- 1a) Actual capital expenditure for 2009/10 and estimates for the current and forthcoming years which are based on only reasonably secure sources of finance.
- 1b) The net cost of financing debt is shown (which includes interest and principal repayments less the interest received from investments) as a percentage of the income receivable from the Government and taxpayers.
- 1c) The Capital Financing Requirement reflects the authority's basic requirement to borrow for capital purposes.
- 1ch) i) The estimated additional cost of the capital investment decisions on the council tax calculated according to the Code's guidance. The Asset Management Plan, which was adopted by the Council this financial year, has had a major impact on this indicator and the way in which it is calculated. It shows the revenue impact of the Plan assuming that the whole Plan is a 'new capital investment decision'. This official indicator is a purely technical calculation which provides rather misleading estimates. In order to attempt to identify the real impact on revenue of the capital programme, the indicator below has been included.
- 1d) ii) The estimated additional cost of the capital investment decision on the council tax assuming that the only real impact is the additional interest on unsupported borrowing of £800,000 that has been included in the 2011/12 base budget.

The following prudential indicators (in table 2 below) are relevant for the purposes of setting an integrated treasury management strategy.

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13	2013/14
(2) TREASURY MANAGEMENT PRUDENTIAL INDICATORS	actual	estimate	estimate	estimate	estimate
a) Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	160,000	160,000	190,000	190,000	190,000
other long term liabilities	0	0	0	0	0
TOTAL	160,000	160,000	190,000	190,000	190,000
b) Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	140,000	135,000	170,000	170,000	170,000
other long term liabilities	0	0	0	0	0
TOTAL	140,000	135,000	170,000	170,000	170,000
c) Upper limit for fixed interest rate exposure					
Net interest re. fixed rate borrowing	100%	100%	100%	100%	100%
d) Upper limit for variable rate exposure					
Net interest re. variable rate borrowing	50%	50%	50%	50%	50%
e) Upper limit for total principal sums invested for over 1 year (per maturity date)	£'000	£'000	£'000	£'000	£'000
	20,000	40,000	40,000	40,000	40,000

Notes on the Treasury Management Prudential Indicators:

- 2a) a b) The Authorised Limit and Operational Boundary reflect the authority's expectations which it imposes on itself regarding external borrowing. They are based on the most likely, prudent but not worst case scenario, with additional headroom in the Authorised Limit.
- 2c) a d) The Upper limit on the authority's exposure to changes in fixed and variable interest rates.
- 2e) The Upper limit on the authority's exposure to investments for periods longer than 364 days.

Maturity structure of borrowing during 2011/12	Upper Limit	Lower Limit
under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

GWYNEDD COUNCIL'S LIST OF AUTHORISED COUNTERPARTIES

Term Deposits / Call Accounts

Country	Counterparty	Maximum Limit of Investments £m	Maximum Length of Loans
UK	DMADF, DMO	No limit	No limit
UK	UK Local Authorities	£10m (£10m)	1 year
UK	Santander UK Plc (Banco Santander Group)	£20m (£20m)	2 years*
UK	Bank of Scotland (Lloyds Banking Group)	£20m (£20m)	2 years
UK	Lloyds TSB (Lloyds Banking Group)	£20m (£0m)	2 years
UK	Barclays Bank Plc	£20m (£20m)	2 years
UK	Clydesdale Bank (National Australia Group)	£20m (£20m)	2 years
UK	HSBC Bank Plc	£20m (£20m)	2 years
UK	Nationwide Building Society	£20m (£20m)	2 years
UK	Nat West (RBS Group)	£20m (£0m)	2 years
UK	Royal Bank of Scotland (RBS Group)	£20m (£15m)	2 years
UK	Standard Chartered Bank	£20m (£0m)	2 years
Australia	Australia and NZ Banking Group	£5m (£5m)	1 year
Australia	Commonwealth Bank of Australia	£5m (£5m)	1 year
Australia	National Australia Bank Ltd	£5m (£5m)	1 year
Australia	Westpac Banking Corp	£5m (£5m)	1 year
Canada	Bank of Montreal	£5m (£5m)	1 year
Canada	Bank of Nova Scotia	£5m (£5m)	1 year
Canada	Canadian Imperial Bank of Commerce	£5m (£5m)	1 year
Canada	Royal Bank of Canada	£5m (£5m)	1 year
Canada	Toronto-Dominion Bank	£5m (£5m)	1 year
Finland	Nordea Bank Finland	£5m (£5m)	1 year
France	BNP Paribas	£5m (£5m)	1 year
France	Credit Agricole CIB (Credit Agricole Group)	£5m (£5m)	1 year
France	Credit Agricole SA (Credit Agricole Group)	£5m (£5m)	1 year
France	Société Générale	£5m (£0m)	1 year
Germany	Deutsche Bank AG	£5m (£5m)	1 year
Netherlands	ING Bank NV	£5m (£0m)	1 year
Netherlands	Rabobank	£5m (£5m)	1 year
Sweden	Svenska Handelsbanken	£5m (£0m)	1 year
Switzerland	Credit Suisse	£5m (£5m)	1 year
US	JP Morgan	£5m (£5m)	1 year

* Arlingclose has currently imposed a restriction to 6 months for this bank.

1. There is a limit of £20m on banks within the same banking group.
2. Investments in Non-UK banks will be restricted to a maximum limit of 40% of the portfolio, with a £10m country limit **to a maximum of 30% of the portfolio per country.**
3. **Minimum Credit Criteria** - long term A+ for counterparties; AA+ for countries.

Instrument	Country	Counterparty	Maximum Limit of Investments £m	Maximum Length of Loans
Gilts*	UK	DMO	No limit	6 years
AAA rated Money Market Funds	UK/Ireland/ Luxembourg	Money Market Funds	£5m per name	Daily Liquidity
Other MMFs and CIS	UK	Collective Investment schemes	£5m per name	Daily Liquidity
Treasury bills*	UK	DMO	No limit	1 year
Local Authority bills*	UK	UK Local Authorities	£10m	1 year
Bonds issued by multilateral development banks.*	Europe/ America	EIB, Council of Europe, Inter American Investment Bank	£5m	6 years
Bonds issued by financial institutions guaranteed by the UK government.*	UK	Guaranteed financial institutions	£5m	6 years
Sterling denominated bonds by non-UK sovereign governments.*	Non-UK	Non-UK Sovereign Governments	£5m	3 years
Business loans to local companies **	UK	As agreed by the Local Loans Fund scheme.	£1m	10 years

* Investment in these instruments will be on advice from the Council's treasury advisor.

** Advancement of these loans will be approved by the procedure detailed in Appendix Ch, Paragraph 6. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

What is happening with our investment in Iceland?

As reported to the Council in October 2008 and in the statutory Financial Statements for 2008/09 and 2009/10, Gwynedd Council had £4 million deposited in Heritable Bank which was established in Glasgow and registered as a UK bank, but encountered difficulties because it was a subsidiary of Landsbanki. Since Heritable is a British bank, the winding-up procedures are going ahead under insolvency law in the UK, with Ernst & Young acting as administrators.

The administrators' detailed report to creditors (dated 13 August 2009) was consistent with their previous correspondence reports in referring to a "base case" return of 70-80%. The 70% figure was based on early disposal of Heritable's assets before the end of 2010, while the 80% figure was based on maximising returns during the period to 2012/13. The administrators "base case" included cautious assumptions about the factors affecting recovery, and local authorities have consistently urged the administrators to maximise returns over the long run.

Heritable Bank's administrators have already paid six dividends to creditors:

- 16.13 pence in the pound on 28 July 2009
- 12.66 pence in the pound on 18 December 2009
- 6.19 pence in the pound on 30 March 2010
- 6.27 pence in the pound on 16 July 2010
- 4.14 pence in the pound on 18 October 2010
- 4.71 pence in the pound on 14 January 2011

The cumulative repayment has reached 50.10 pence in the pound which is consistent with cumulative forecast to date.

On 11 August 2010, the administrators of Heritable wrote again to creditors to advise that they were maintaining their estimates of recoveries at the "base case" estimated return of 79-85%.

It is unlikely that the exact final return will be clear until 2012/13, and the value will depend upon the performance of assets held by Heritable, which includes equity, but is thought to be primarily property in the UK. The administrators previous and revised base case are based upon assumptions in respect of key factors which could have a significant impact on returns to creditors, including interest rates, the housing market and the wider economic environment. Ernst & Young state that these factors are impossible to predict over long periods with any significant degree of confidence or accuracy, hence the return to creditors may be significantly higher or lower than predicted, and their estimates remain "provisional".

However, on the basis of the evidence currently to hand, it is reasonable to conclude that creditors in Heritable Bank should receive returns of 79% to 85%. If so, Gwynedd Council would be likely to recover £3.4 million or more of its original deposit of £4 million.

Since 2008, the Council's investment policies changed to become more 'risk-averse' (see the Treasury Management Strategy for 2009/10, 2010/11 and 2011/12). However, the potential "real" loss (possibly about £600,000) with Heritable Bank should be considered in the context of significant interest earned during the preceding years. If all the Council's money had been invested in a securer place, then the interest generated would have been around 2% lower with an annual income of approximately between £1m and £2m lower.

The downfall of Iceland's banks was the origin of our potential losses, but the money was deposited in a British bank. More recent developments in Iceland will have no effect upon the value of the Council's investment. The final result of this issue will now be dependent upon the recovery of the UK economy and the success of the administrators in acting effectively on our behalf in order to maximise returns from the assets of Heritable Bank (to date and until 2012/13).