

Agenda Item 9

Report RPC 04 /11

Report to	Resources and Performance Committee
Date	8 March 2011
By	Interim Chief Finance Officer
Title of Report	Treasury Management Policy Statement & Annual Investment Strategy 2011/12
Purpose of Report	To advise the Committee of the Treasury Management Policy Statement, Treasury Management Practice and Annual Investment Strategy for 2011/12

RECOMMENDATION: That the Committee recommends that the Authority approve:

- 1. the Treasury Management Policy Statement 2011/12 and Treasury Management Practices 2011/12 as set out in Appendices 1 and 2 to this report.**
 - 2. the Annual Investment Strategy 2011/12, including the ethical investment statement and benchmark risk factor of 0.05%, as set out in Appendix 3.**
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1. Introduction

- 1.1 This report details the Treasury Management Policy Statement, Treasury Management Practices and Annual Investment Strategy to be adopted by the Authority for 2011/12.
- 1.2 Part 1 of the Local Government Act 2003 requires the Authority to adopt and comply with the requirements of 'the Code of Practice for Treasury Management in the Public Services' issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and to comply with investment guidance issued by the Secretary of State.
- 1.3 The Code of Practice requires each authority to set out its strategy on treasury management for the forthcoming year. This report recommends a treasury management policy statement (TMPS) and treasury management practices to fulfil this requirement for the financial year commencing 1 April 2011.
- 1.4 The annual investment strategy as set out in **Appendix 3** provides compliance with the investment guidance issued by the Secretary of State. The guidance recommends the investment strategy is approved by the full Authority.

2. Treasury Management Policy Statement 2011/12

- 2.1 The Code on Treasury Management published by CIPFA has been produced to satisfy a number of key purposes for treasury management, including:
 - to assist in the development and maintenance of firm foundations and clear objectives;
 - to emphasise the overriding importance of effective risk management as the foundation,
 - to encourage the pursuit of value for money;
 - to help facilitate the standardisation and codification of policies and practices

- 2.2 For 2011/12 the Authority will procure treasury management services from Brighton & Hove City Council. The treasury management policy statement and practices set out in the **Appendices 1 and 2** to this report are based on those adopted by the City Council and comply with the requirements of the Code. All monies will be invested by the Council's in-house treasury team and investment income will be reported as part of the quarterly monitoring.

3. Annual Investment Strategy 2011/12

- 3.1 The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key areas – (a) capital security through investment in institutions with the highest credit rating and (b) liquidity by limiting the maximum period of investment.
- 3.2 The investment strategy is shown in **Appendix 3** and details the criteria used for selecting suitable counterparties for investing funds. The strategy recommends:
- a benchmark risk factor of 0.05% (it is not possible to have 0%) that reflects the risk adverse approach to investments, and
 - the adoption of an ethical investment statement, the same as that adopted by the Council.
- 3.3 There are two changes in the investment criteria from 2010/11. The first is the lengthening of the maximum period from 6 months to 12 months. This change will enable the Authority to benefit from higher returns where cash flows permit. The second change is the removal of building societies that have a credit rating below the minimum set out in the strategy.

4. Resources

- 4.1 The Authority will be advised on a quarterly basis the financial implications arising from the recommendations in this report.

5 Human Rights, Equalities, Health & Safety

- 5.1 There are no Human Rights, Equalities or Health & Safety implications from this report.

6. Risk Management

- 6.1 Risk assessment is contained within the treasury management practices set out in appendix 2 to this report.

7 Consultees

- 7.1 The National Park Officer, Monitoring Officer, Legal Services

SUE CHAPMAN
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Appendices

1. Treasury Management Policy Statement 2011/12
2. Treasury Management Practices 2011/12
3. Annual Investment Strategy 2011/12

SDNPA
Consultees

Chief Executive Officer, Director of Corporate Services, Chief Finance Officer, Monitoring Officer.

South Downs National Park Authority
Treasury Management Policy Statement 2011/12

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2011

- 1 The Authority defines its treasury management activities as
“The management of the organisation's cash flows, its bankings, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2 The Authority regards the successful identification, monitoring and management 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 Authority.
3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

South Downs National Park Authority
Treasury Management Practices 2011/12

TMP1: Risk management

The Authority's Section 151 Officer will procure all arrangements for the identification and management of treasury management risk. The Section 151 Officer will report at least annually on the adequacy and suitability thereon 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.

The arrangements procured by the Section 151 Officer will ensure:

- the Authority has adequate (though not excessive) cash resources, borrowing arrangements, overdraft and 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 business / service objectives.
- the prudent use of approved financing and investment instruments, methods and techniques.
- a prudent attitude towards the organisations with which the Authority's funds may be deposited, including the limiting of investment activity to instruments, methods and techniques referred to in 'TMP4 Approved instruments, methods and techniques'.
- all of the Authority's treasury management activity complies with its statutory powers and regulatory requirements.
- the use of systems and procedures that minimise the exposure to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

TMP2: Best value and performance measurement

The Section 151 Officer will ensure the Authority is committed to the pursuit of best value in its treasury management activities.

TMP3: Decision-making and analysis

The Section 151 Officer will maintain full records of the Authority's 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.

TMP4: Approved instruments, methods and techniques

The section 151 Officer will undertake the Authority's treasury management activity by employing only those instruments, methods and techniques suitable to meet the organisations' short to medium term need.

TMP5: Organisation, clarity and segregation of responsibilities / dealing arrangements

The Section 151 Officer will ensure:

- there are clear written statements of the responsibilities for each post engaged in treasury management and arrangements for absence cover,
- there is proper documentation for all deals and transactions, and
- procedures exist for the effective transmission of funds.

TMP6: Reporting / management information arrangements

The Section 151 officer will prepare and present to the Authority:

- an annual report on the strategy and plan to be pursued in the coming year
- quarterly reports on transactions undertaken, and

- an annual report on the performance of the treasury management function.

TMP7: Budgeting, accounting and audit arrangements

The Section 151 Officer will account for the Authority's treasury management activity, 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 / cash flow management

All funds of the Authority will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes.

TMP9: Money laundering

The Section 151 Officer will ensure the Authority introduces and maintains procedures for verifying and recording the identity of counterparties and reporting suspicions.

TMP10: Staff training / qualifications

The Section 151 Officer will ensure that all staff involved in the treasury management function shall be fully equipped to undertake the duties and responsibilities allocated to them.

TMP11: Use of external service providers

The Authority has procured the services of Brighton & Hove City Council to provide the treasury management function. The Section 151 Officer shall ensure that the terms of the council's appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

TMP12: Corporate governance

The Authority is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly the Section 151 Officer will ensure that the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority will adopt the key recommendations of the Code of Practice in Treasury Management.

South Downs National Park Authority
Annual Investment Strategy 2011/12

This Strategy complies with guidance to be issued by the Secretary of State on investments.

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

The Authority will adopt the following minimum capital security requirements:

- Banks/building societies with a credit rating – the institution must have a minimum short term rating of highest credit quality. “Highest credit quality” is defined as institutions with a short-term credit rating issued by the three main rating agencies of:

Rating agency	Max rating	Min rating
Fitch	F1+	F1
Moodies	P-1	P-1
Standard & Poors'	A-1+	A-1

- Local authorities / Debt management office – deposits in these institutions are regulated under legislation
- Money market funds – the rating of the fund meets the minimum requirement of triple A (AAA / Aaa)
- CCLA Public Sector Deposit Fund – a new fund to be launched in the Spring specifically aimed at investment by public sector organisations. Investment in the fund will be dependent upon the fund achieving the minimum requirement of triple A (AAA / Aaa)

Maximum permitted investment by sector / counterparty

The maximum amount invested in any one sector will be 100%, with the exemption of the building society sector where the maximum limit will be 75%.

Where practical no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

Investment period

Investments will be made to match the cash flow requirements of the Authority. The maximum period of investment will be twelve months.

Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the Authority to identify investments as either 'specified' or 'non-specified'. Specified investments are short-term (i.e. up to 12 months), denominated in Sterling and made in institutions of the highest credit quality.

All investments made by the Authority will meet these requirements and will therefore fall within the specified category.

Approved methodology for changing limits and adding / removing counterparties

A counterparty shall be removed from the Authority's list where a change in their credit rating results in a failure to meet the criteria set out above.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Section 151 Officer.

Full individual listings of counterparties and counterparty limits

For 2011/12 investment will be restricted to UK banks and buildings societies that satisfy the criteria set out above. A full list of counterparties is set out below.

<u>UK Banks</u>	<u>UK Building societies</u>
Barclays	Leeds
Clydesdale Bank	Nationwide
HSBC Bank plc	
Lloyds Bank	<u>Other</u>
Royal Bank of Scotland	Local authorities
Santander UK plc	Debt Management Acc Deposit Facility
	Money market funds - Various
	CCLA Public Sector Deposit Fund (provided the minimum rating is achieved)

Details of credit rating agencies' services

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poor's.

Permitted types of investment instrument

All investments will be denominated in Sterling and in fixed term and variable term cash deposits, money market funds and open ended investment companies.

Investment risk

In addition to credit ratings the Authority will apply additional operational market information before making any specific investment decision. This additional market information will be applied to compare the relative security of differing investment counterparties.

The Authority is recommended to agree a benchmark risk factor for 2011/12 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

Ethical investment statement

The Authority is recommended to adopt the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the Authority

"South Downs National Park Authority, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. The Authority will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- *encouraging those institutions to adopt and publicise policies on socially responsible investments;*
- *requesting those institutions to apply the Authority's deposits in a socially responsible manner."*

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.