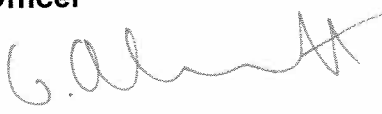




Haringey Council

General Purposes Committee

On 22 October 2009

Report Title.	Treasury Management – 2nd Quarter and half year ended 30 September 2009 performance update.	
Report of:	Chief Financial Officer	
Signed :	Gerald Almeroth 	
Contact Officer :	Kevin Bartle, Head of Corporate Finance Telephone 020 8489 3743	
Wards(s) affected: All	Report for: Non Key Decision	
1. Purpose of the report		
1.1. To update the Committee on the Council's treasury management activities for the second quarter and half year ended 30 September 2009.		
2. Recommendations		
2.1 That Council is recommended to revise section 6.6 of the Treasury Management Strategy Statement (TMSS) to include 'call accounts' as Specified Investments.		
2.2 That Members note the treasury activity undertaken for the second quarter and half year ended 30 September 2009.		

3. Reason for recommendation(s)

- 3.1. To enable further secure investments to be made with the objective of optimising investment returns where possible but keeping risk to a minimum.

4. Summary

- 4.1. This report sets out the Council's treasury management activity and performance for the second quarter and half year ended 30 September 2009.

5. Head of Legal Services Comments

- 5.1 The Head of Legal Services has been consulted on the content of this report and comments that the recommendations are within the policy agreed by Council and consistent with the purposes of Financial Regulations. In considering the recommendations Members must take into account the expert financial advice available in the report and any further advice given at the meeting of the Committee in relation to the level of risk inherent in the proposals.

6. Use of appendices

- Appendix A Extract from the Council's TMSS - February 2009
- Appendix B Investments Performance Indicator;
- Appendix C Interest Rate Outlook;
- Appendix D LBH response to CIPFA's Treasury Code of Practice Consultation

7. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

- Financial Planning for 2009/10 to 2011/12 reported to Council and agreed on 23 February 2009.
- Report to General Purposes Committee dated 7 July 2009

For access to the background papers or any further information please contact Kevin Bartle, Head of Corporate Finance, on 0208 489 3743.

8. Background

8.1 In accordance with the recommendations contained in the Treasury Management Strategy Statement (TMSS) and approved by the Council on 23 February 2009, there is a requirement to report to members the treasury management activity on a half yearly basis. However, following the report of PwC into the Council's Icelandic investments, and in view of the continuing developments in this area, it has since been agreed to report to General Purposes Committee on a quarterly basis on all significant matters affecting the operation of the TMSS. This second report outlines the Council's treasury management activities for the quarter and half year ended 30 September 2009 and will cover:

- the investment of surplus balances and the effect of changes to the counterparty list;
- the use of the actions recommended and agreed at the last meeting on 7 July 2009;
- an update on the recovery of monies invested in the Icelandic Banks.

9. Treasury Management Activities for the Quarter Ended 30 September 2009

9.1 In October 2008, the Chief Financial Officer undertook a risk assessment into the institutions holding Council deposits, the results of which prompted a move to revise the Council's approved counterparty list.

9.2 The revised counterparty list was included in the 2009/10 TMSS, was ratified by full Council in February 2009 and incorporates the following:

'The Council will only invest (on a term or certificate basis) in UK banks and building societies that have a minimum AA- long term and F1+ short term credit rating AND are participants in the UK Government's Credit Guarantee Scheme (CGS).'

9.3 This formalised the action already taken to limit the Council's investment activity to the following banks:-

- Abbey National;
 - Barclays;
 - HSBC;
 - Lloyds Banking Group;
 - Royal Bank of Scotland;
- and the following Building Society;
- Nationwide.

In addition investments in the above institutions are restricted to a maximum limit of £20m per institution with a maximum duration of 12 months. Furthermore, investment activity, and thus the counterparty limit, is also limited to the Group concerned. The list of permitted investments and instruments is included within an extract of the Council's current TMSS which is attached as Appendix A to this report.

- 9.4 The effect of adopting the revised lending list is set out in Table 1 below which compares the investment portfolio in October 2008 to the current portfolio profile at 8 October 2009 as follows:

Table 1

Institution	Value Oct 2008 £m	Maturity dates	Value 8 October 2009 £m	Maturity dates
UK Banks	1.5	Oct 08	66.3	Oct 09 – Apr 10
UK Building Societies	58.7	Oct 08 – Aug 09	20.0	Nov 09
Irish Banks	61.1	Oct 08 – Jun 09	0	n/a
Irish Building Societies	12.0	Oct 08 – Feb 09	0	n/a
Other Non – UK Banks	23.4	Oct 08 – Nov 09	0	n/a
Debt Management Office	0		16.3	9 Oct 09
TOTAL	156.7		102.6	

- 9.5 The impact that the revisions to the TMSS has had is to eliminate the exposure to Irish building societies and banks and other non-UK banks. In addition, investments in UK building societies have been reduced by £38.7m to £20m. These reductions have seen increases in the exposure to UK banks and the government's Debt Management Office (DMO). The DMO is an investment facility operated by the UK government which has the highest security rating but conversely pays a very low interest rate in comparison to other institutions. A list of all outstanding deposits is set out at Appendix B.
- 9.6 At the time of preparing the first quarterly report in July only 3 investments remained in place that did not achieve the Council's minimum revised credit rating criteria, totalling £12m. These investments, that were placed before October 2008, were:

Table 2

Institution	Principal £M	Date Placed	Maturity
DEPFA Bank Plc	5	30/06/2008	30/06/2009
Skipton BS	2	24/07/2008	23/07/2009
Chelsea BS	5	29/08/2008	28/08/2009
Total	12		

- 9.7 At the time that the above investments were made they accorded with the approved credit rating criteria then prevailing. Subsequently, these institutions became subject to a number of rating downgrades by the credit rating agencies. The Council, did, nevertheless, undertake risk assessments on these remaining institutions and considered that the risk of non recovery was small. All of the above deposits were repaid on the due dates and consequently the Council no longer retains any investments that do not meet the credit rating criteria set out in the TMSS.
- 9.8 The security of investments remains the principal investment objective for this authority. The approved performance indicator, which has been developed in conjunction with the treasury management advisors, and provides a credit rating based objective scoring analysis, is provided at Appendix B.
- 9.9 The credit risk scores of **3.5** (value weighted average) and **4.0** (time weighted average) indicate a low level of security risk based on the methodology adopted by our treasury advisors as follows:

Above target (AAA to AA+, Score 0-2)
 Target score (AA to A+, Score 3-5)
 Below target (below A+, Score over 5)

Credit risk scores 2009/10

	1 st quarter as at 30 June 09	2 nd quarter as at 30 Sept 09
Value Weighted	4.3	3.5
Time Weighted	4.3	4.0

- 9.10 On this basis, Haringey remains in the middle of the target range. The scores achieved in this quarter show an improvement over those reported in quarter 1 of 4.3 and 4.3 respectively as shown above and due largely to the repayment of the 3 deposits set out in Table 2 above.

- 9.11 Although the Council has adopted a more prudent stance in respect of the treasury management function it has still been possible to out perform the investment performance indicator over the first five months (ended August) of 2009/10 as follows:

Target:	0.5% above base rate
Actual Investment performance:	0.7407% above base rate

Interest rate outlook

- 9.12 The TMSS is predicated on interest rate forecasts provided by the Council's Treasury Management advisors, currently Arlingclose. The latest forecast compared to the version used in the estimates is attached at Appendix C. The base rate is now forecast to remain constant at 0.5% until September 2010 but could rise by a series of phased increases to 4% by December 2011. The interest rate outlook is important because it affects the term of future investments and hence the capacity to maximise interest earned. The Council would not, for example, want to invest for periods in excess 12 months given that the rates are likely to increase in the medium term.

Interest earned in the period ended 30 September 2009

- 9.13 The interest earnings in the first quarter amounted to £0.682m, and in the second quarter £0.458m totalling £1.14m for the half year. The forecast for investment income in 2009/10 is £2 million. Whilst interest earnings achieved in the first half year indicate that this sum will be achieved, the pattern of replacement investments, i.e. at considerably lower rates of interest, makes it unlikely that the forecast of £2m will be achieved. Based on the best information currently available it is anticipated that investment income for 2009/10 is more likely to be in the order of £1.6m. Members will be kept informed of the position in future quarterly reports.

Update on the recommendations and actions approved at the 7 July meeting

- 9.14 At the last meeting of General Purposes Committee it was resolved that;
- 9.14.1 The Council is recommended to revise the Treasury Management Strategy Statement to include the Clydesdale Bank as a permitted institution for investment purposes on the same terms as the other institutions already on the approved list i.e. a maximum exposure of £20m and a duration of up to 12 months.
- 9.14.2 That Members note the proposed use of the following Treasury Management actions which are already contained within the TMSS:-
- 9.14.2.1 The Council's treasury management advisors be asked to identify a minimum of two and a maximum of four 'AAAm' rated Money Market Funds allowing total investments of up to £10m in accordance with the current TMSS.

9.14.2.2 Investments will be made of up to £10m in bonds issued by the European Investment Bank with redemptions due in December 2010 and March 2011.

9.14.2.3 The premature repayment of PWLB loans of up to £25m will be made on favourable terms as approved by the Chief Financial Officer.

9.14.2.4 The use of available cash balances to fund, in the short or medium term, a number of approved capital schemes in 2009/10.

9.15 Set out below is an update on each of these proposed actions:-

9.15.1 **Add Clydesdale Bank to the counterparty list:** Following the Committee's decision, agreed by Council on 20th July 2009, Clydesdale Bank was subsequently placed on 'negative outlook' by Moody's, the credit rating agency and as a result, the Council's treasury management advisors reduced the recommended maturity period for investments with this institution from a maximum duration of one year to a maximum of one month. In view of the additional counterparty risk, no investments will be made with Clydesdale Bank until the restoration of a 'stable' credit rating outlook and an increase in the recommended investment duration period is confirmed by the Council's treasury advisors. Although the counterparty list remains extremely limited at present, reflecting the continued prudent approach, Arlingclose are likely to recommend the addition of a number of international names to the existing counterparty list in due course. These proposals will be considered in a future report.

9.15.2 At present the only outlet for the placement of overnight or very short-term monies is the DMO. Although, as discussed in the first quarterly report, the counterparty is AAA rated, deposits only attract an annual equivalent rate of 0.25%. By contrast, 'call accounts' (which are investments for indeterminate periods) and operate as short term deposit accounts for periods determined by the customer, are currently paying up to 0.80% on similar terms. At least two of the institutions on the approved lending list are currently operating these accounts on the terms described above. At present, the Council is unable to place investments in 'call accounts' as they are not explicitly included in the list of specified investments listed in paragraph 6.6 of the TMSS. In order to maximise earnings on short term investments therefore, it is **recommended** that approval be sought from Council to revise the TMSS to include 'call accounts' as Specified Investments. In instances where call accounts are used, the investment will count against the £20m limit for the relevant counterparty.

9.15.2.1 **The use of AAAM Money Market Funds;** At the date of preparing this report due diligence is being undertaken, in conjunction with the Council's treasury advisors, into a number of AAAM Money Market Funds. The choice of the Money Market Fund managers to assess was made with the Council's treasury management advisors on an objective basis. Interviews will take place with representatives of the following firms on 14 October 2009:-

- Prime Rate;
- Henderson Global Investors;
- Royal Bank of Scotland;
- Northern Trust; and,

- Goldman Sachs.

Arlingclose will support the Head of Corporate Finance and the Interim Treasury Manager in the interview process which will consist of a 20 minute presentation from each manager followed by a 25 minute question and answer session.

Attendees have been asked to address the following matters in their presentations:-

- how is credit risk identified and controlled, specifically how is the client's capital investment and the fund's capital value protected?
- how is liquidity maintained and managed?
- an overview of the portfolio construction and management, in particular how are investors protected from adverse market swings?
- the key characteristics of the fund; and,
- how many local authority clients each of the fund managers has.

Following the interview process, a recommendation will be made to the Chief Financial Officer on the preferred managers for the Council. On approval, investments up to £10m will be placed with the selected fund managers in accordance with the TMSS.

9.15.3 **Investments in bonds issued by the European Investment Bank;** at the last meeting two such investments were proposed, however since then the indicative yields on the investments have narrowed considerably. In view of the interest forecast set out in paragraph 9.12 above, and the associated interest rate risk now implicit in these investments, it has been decided not to proceed until a more favourable yield is indicated that fully reflects the risk of potential rate rises.

9.15.4 **Repaying some-long term debt to the PWLB;** at the last meeting a case was made for prematurely repaying some debt to the PWLB on 'neutral terms' to eliminate all treasury risk in respect of the commensurate reduction in the available monies for investment. Although a suitable loan was identified at the July meeting, it was not possible to complete matters on the terms indicated as gilt yields had fallen following implementation of the Governments Quantitative Easing programme. As a result of the technical operations of the Bank of England, i.e. using the additional 'money' to buy gilt edged stocks from banks in order to strengthen their balance sheets, a one way market in gilts has developed. As a consequence gilt prices have risen thereby rendering the proposal financially unviable at this time.

However, following the lower gilt yields currently prevailing a number of loans in the Council's portfolio with lower coupons are currently being shadowed in conjunction with the treasury advisors and it is possible that some early repayment, consistent with the principles set out above, could be achieved during the remainder of 2009/10.

9.15.5 **Providing medium term finance for Capital Finance;** at the last meeting it was proposed that consideration be given to providing medium term finance to a number of 2009/10 approved capital schemes that are intended to be financed in due course from sales of council properties. By providing medium term finance the properties can be sold in a more favourable economic climate and treasury risk is eliminated in respect of finance provided. To date, the pattern of the capital spend has meant that it has not been necessary to invoke this facility although it remains

available to be utilised if required.

10. Reviews of Treasury Management Operations

- 10.1 Given the national attention given to treasury management activities and operations since the Icelandic banking crisis, there have been a number of national and local reviews undertaken.
- 10.2 The recent Internal Audit report to the Council's Audit Committee in April 2009 contains a number of recommendations which were made by PwC following their review of Haringey Council's treasury management procedures and the Audit Commission's national report on Treasury Management. All of the recommendations have already been implemented.

11. The Chartered Institute of Public Finance and Accountancy (CIPFA) Consultation

- 11.1 As a consequence of the Icelandic banking crisis CIPFA have undertaken a consultation exercise with a view to revising the Treasury Management Code. The scope of the current consultation covered matters of Member scrutiny, changes to TMSS approval procedures, Member training and interim reporting procedures on the implementation of the TMSS. CIPFA's key questions pertaining to these issues together with Haringey's response are attached as Appendix D for information.

12. Update on the Recovery of Monies Invested in the Icelandic Banks

- 12.1 The administration process for the Icelandic banks in which Council deposits are held is continuing. Since the last meeting a first interim payment has been received in respect of Heritable Bank amounting to £3,267,899 (equivalent to 16.13p in the pound of the deposits with that bank). It is anticipated that a second interim payment of £1.9m (equivalent to 10p in the pound) will be received in December 2009. The position with investments in respect of investments held in Glitnir and Landsbanki bank remains unchanged.
- 12.2 The government has issued a regulation to allow authorities to defer accounting for the net loss until later years. CIPFA has recently issued further accounting guidance for authorities on the assumptions for deferred impairments in the 2008/09 accounts and based on the latest position, this recommends assuming an estimated recovery of 82.3% of the total capital sum invested in all Council Icelandic investments. The Council has, however, accounted for interest not received in relation to these investments in 2008/09.

13. Conclusions

- 13.1 The proposal recommended in this report, namely the addition of 'call accounts' to the list of specified investments that may be used by the existing counterparties on the approved lending list, will add considerably to the Council's ability to maximise returns on secure and liquid investments.

13.2 Future reports will monitor the implementation of the proposal now recommended, if approved, and will continue to identify opportunities to further underpin the prudent implementation of the TMSS.

Extract from the Council's TMSS – February 2009

- 6.10 Financial markets and financial institutions remain in a state of heightened risk as the impact of the credit crunch continues to adversely affect the global economy with particular volatility in the financial and banking sectors. In order to reduce risk the Council has considered adopting a more tiered approach to limits and ratings, including the use of sovereign ratings. However, this strategy is recommending an approach that goes further than this. The Council's investment activities have been restricted as a consequence in order to demonstrably address the prevailing higher risk backdrop and it is proposed to continue to restrict this and at the same time take advantage of more AAA rated government backed instruments. This will apply to all new transactions.
- 6.11 The Council is able to invest in the investment instruments outlined in 6.6 and 6.7 above but it is proposed that investments in banks and building societies (on a term or certificate of deposit basis) are limited to UK banks and building societies that have a minimum AA- long term credit rating and F1+ short term rating and are participants in the UK Government's Credit Guarantee Scheme (CGS).

This will limit activity to the following banks:

- Abbey National
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland

and the following Building Society:

- Nationwide

The CGS effectively provides a UK Government Guarantee for these institutions, some of whom such as Lloyds Banking Group and Royal Bank of Scotland have effectively been partially nationalised by the UK Government.

It is proposed that deposits with these banks and building society are allowed for periods up to 12 months duration and £20m exposure limit per institution applies at a group level.

Given current conditions and the possibility of downgrade to the UK and its banks the Chief Financial Officer retains delegated power to allow the continuation of use of these six institutions even if they suffer downgrades below a long-term rating of AA- and a short-term rating of F1+, whilst the UK Government Guarantee remains in place.

The previous strategy allowed for the use of non-UK banks and building societies that had minimum ratings of A and F1.

- 6.12 The Council has an account with the Debt Management Deposit Account Facility (DMADF). This facility allows the Council to invest with the UK Government via HM Treasury for periods up to 6 months. There is no exposure limit on the DMADF as an investment counterparty.
- 6.13 The Council can utilise Money Market Funds with a AAAm rating and operating on a constant net asset value basis (CNAV). The Council can invest up to £10m in money market funds but has a maximum exposure limit to any one Fund of £5m.
- 6.14 Investments in other UK local authorities are permitted. There is a £30m exposure limit on each local authority as investment counterparties.
- 6.15 The Council is permitted to invest in sterling denominated bonds issued by HM Government (Gilts), bonds issued with a HM Government Guarantee and bonds issued by Multi Lateral Development Banks (i.e. European Investment Bank, World Bank). Investments in these bonds will be for periods of up to 6 years. The Council will look to utilise more of this highly secure government backed instruments.
- 6.16 The permitted investments can be summarised as follows:

Investment	Maximum Counterparty Limit	Maximum Length of Investment	Criteria
Banks and Building Societies	£20m	1 year	Min AA- long term and F1+ rating plus CGS (or equivalent)
Local Authorities	£30m	5 years	
Money Market Funds	£5m	n/a	AAAm and CNAV
HM Government (DMADF)	Unlimited	6 months	
HM Government (Gilts and Treasury Bills)	Unlimited	6 years	
Bonds issued by Multilateral Development Banks	£60m	6 years	
Bonds issued with HM Government Guarantee	£60m	6 years	

The Chief Financial Officer will assess whether to restrict further within these limits based on the latest available market information and advice.

INVESTMENTS PERFORMANCE INDICATOR

INSTITUTION:	Group	Principal	Matures	Days to maturity	Rate	Credit rating (source Bloomberg)	Credit Risk Score
(a) Outstanding deposits							
Abbey Time Deposits	Santander	£5,125,000.00	02/11/2009	19	0.50%	AA-	4
Abbey Time Deposits		£5,000,000.00	03/12/2009	50	0.67%	AA-	4
Abbey Time Deposits		£6,750,000.00	04/01/2010	82	0.54%	AA-	4
Abbey Time Deposits		£5,000,000.00	30/10/2009	16	1.15%	AA-	4
Lloyds	Lloyds Banking Group	£5,000,000.00	02/04/2010	170	1.10%	AA-	4
Lloyds		£5,000,000.00	08/01/2010	86	1.65%	AA-	4
Lloyds		£11,500,000.00	02/11/2009	19	5.65%	AA-	4
Nationwide	Nationwide	£8,500,000.00	05/11/2009	22	1.61%	AA-	4
Nationwide		£5,000,000.00	11/12/2009	58	3.70%	AA-	4
RBS	RBS	£10,000,000.00	17/12/2009	64	1.47%	AA-	4
RBS		£5,000,000.00	03/03/2010	140	0.98%	AA-	4
RBS		£4,500,000.00	29/01/2010	107	1.09%	AA-	4
Barclays	Barclays	£10,000,000.00	15/01/2010	93	1.25%	AA-	4
Barclays		£16,270,000.00	15/10/2009	1	0.25%	AAA	1
DMO	DMO						
Total		£ 102,645,000		08/12/2009	1.630%		
Number of deposits		14					
Value Weighted Average		£ 7,331,786				AA-	3.5
Time Weighted Average				56		AA-	4.0

Credit risk scored 1 - 10 : 1 = strongest rating lowest risk, i.e. AAA, through to 15 = lowest credit rating, highest risk, i.e. D
Non-rated, non-guaranteed institutions score 11

Above Target (AAA to AA+ Score 0-2)

Target (AA to A+ Score 3-5)

Below Target (Anything less than A+, Score above 5)

On this basis Haringey is in the middle of its target range

Appendix C

Interest Rate Outlook

The TMSS is predicated on interest rate assumptions provided by Arlingclose. The table below provides the current forecast compared with the earlier forecast as follows:

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Official Bank Rate										
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside risk					-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
1-yr LIBID										
Upside risk				+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.25	1.50	2.00	2.75	3.50	4.00	4.25	4.25
Downside risk					-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Arlingclose's forecast for interest rates (December 2008)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Official Bank Rate							+0.25	+0.25	+0.25
Upside risk									
Central case	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.50	2.50
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.50	-0.50	-0.50	-0.50
1-yr LIBID									
Upside risk									
Central case	2.50	1.75	1.50	1.50	1.50	1.75	2.00	2.75	3.00
Downside risk	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt									
Upside risk									
Central case	3.00	2.75	2.50	2.00	2.00	2.50	2.75	3.00	4.00
Downside risk		-0.50	-0.50	-0.50	-0.50	-0.50			
10-yr gilt									
Upside risk									
Central case	3.40	3.10	3.00	3.00	3.00	3.50	3.75	4.00	4.50
Downside risk	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50			
20-yr gilt									
Upside risk		+0.10	+0.10	+0.10	+0.10	+0.10			
Central case	4.00	4.00	4.00	4.25	4.25	4.50	4.75	4.75	4.75
Downside risk		-0.10	-0.10	-0.10	-0.10	-0.10			
50-yr gilt									
Upside risk	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10
Central case	3.90	3.90	4.00	4.00	4.25	4.50	4.50	4.50	4.50
Downside risk	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10

It will be seen that base rate is now forecast to remain constant at until September 2010 but could rise by a series of phased increase to 4% by December 2011.

RESPONSE OF HARINGEY COUNCIL CIPFA REVISED TREASURY CODE CONSULTATION

The London Borough of Haringey welcomes CIPFA's decision to revise the Treasury Code and the opportunity to comment on the draft.

The four key changes to the Code now proposed are considered to be uncontroversial, easily implemented and are fully supported by this authority.

In relation to the key changes to the sectional guidance, the Council wishes to make the following observations;

Key point 1 – 'Organisations should not solely rely on credit ratings when choosing a counter party, but should use all available market information.'

Whilst the thrust of this point is supported, it would be helpful if a reference could be made in the new Code as to what CIPFA perceive as appropriate additional sources of market information. Additional sources of information could include reading the financial press, awareness of sudden and unexplained downward movements in bank share prices, scrutiny of bank annual reports and accounts, interim statements by bank chairmen and credit default swap prices.

Key point 2 - 'That a sound diversification policy will include country, sector and group limits'

The investment in a sector or a country must always be justified on the grounds that it is believed that there is complete security of capital; common sense must prevail at all times. At present it is believed that the majority of local authorities no longer have direct exposure to overseas banks. It is agreed, however, that strict group limits must always be applied. An alternative drafting is suggested as follows:

'That a sound diversification policy will include detailed consideration of the extent of any country and sector allocations and the imposition of strict group limits'

Proposed key changes to the Code:

- 1. Enhancement of the role of scrutiny of treasury management strategies and procedures. It will be a public body's responsibility to identify an appropriate body or individual to have responsibility for the scrutiny function which may be a committee such as a finance scrutiny committee or audit committee. This reflects the increased prevalence of Audit Committee and Scrutiny functions across the public services.**

Proposal supported. For information, this issue has been addressed in this authority by the introduction of quarterly reports to the Council's General Purposes (GP) Committee. This is the committee vested with accounts approval responsibilities

and is seen as the most appropriate committee to oversee, and scrutinise, treasury management activities.

2. Currently the Treasury Management Strategy must be approved by the full board or council and this is typically done as part of the approval of the budget. The revised Code will allow approval from a relevant committee. Where approval is not by full board or council, the decisions made must be reported to full council. This reflects the evolving political structures within Local Government and ensures that public bodies consider treasury management away from the focus of the budget.

Proposal supported. The Council has already put in place an enhancement to procedures by the regular review and scrutiny of the TMSS and treasury management activities by the GP committee (as outlined above). Any revisions to the TMSS will be routed through the GP committee for agreement before final approval of the Council. It is suggested that in-year revisions could be approved by GP and formally ratified by Council to enable treasury teams to implement actions more speedily and efficiently in times of changing or volatile interest rates.

3. The requirement for ensuring that staff are appropriately qualified and trained is already contained within the existing code. The revised Code will require training to be available for the relevant board / Council members with responsibility for treasury management. This is to ensure that all those responsible for treasury management are aware of their responsibilities and have access to training.

Proposal supported. The Council has already implemented routine Treasury Management training for Council members.

4. The existing Code requires the Treasury Management Strategy to be approved prior to the start of the financial year and a report presented after the end of the financial year detailing operational activity throughout the year. The revised code will also require an interim or mid-year operational report.

Proposal supported. The Council already has quarterly reporting to GP committee in place.