REPORT TO:	Cabinet Council
DATE:	26 February 2009 26 February 2009
SUBJECT:	Treasury Management Policy & Strategy 2009/2010
WARDS AFFECTED:	All
REPORT OF:	**Paul Edwards** **Finance & IS Director** 0151 934 4082
CONTACT OFFICER:	**Lynton Green** **Senior Assistant Finance & IS Director** 0151 934 4096
EXEMPT/CONFIDENTIAL:	No

PURPOSE/SUMMARY:

To advise Cabinet of the proposed procedures and strategy to be adopted in undertaking the Treasury Management Function in 2009/2010.

REASON WHY DECISION REQUIRED:

To enable the Council to effectively manage its Treasury activities.

RECOMMENDATION(S):

Cabinet is recommended to

a) Agree the Treasury Management Policy Document for 2009/2010 (Annex A);
b) Agree the Treasury Management Strategy Document for 2009/2010 (Annex B);
c) Approve the amendment to Banking arrangements contained within the Financial Procedures Rules of the Constitution (Para 3);
d) Agree the Money Laundering Policy Document (Para 4 and Annex C);
e) Agree the basis to be used in the calculation of the Minimum Revenue Provision for Debt Repayment in 2009/2010 (Para 5);
f) Refer the report to Council for approval.

KEY DECISION: No, this report does not represent a key decision in itself but forms part of the delivery of the 2009/2010 Budget, which is a key decision for the Council.

FORWARD PLAN: No – see above.

IMPLEMENTATION DATE: With effect from 1 April 2009.

ALTERNATIVE OPTIONS:

The Cabinet could decide not to comply with the CIPFA Code of Practice on Treasury Management that recommends production of Treasury Management Policy and Strategy Documents. Non-compliance with the Code would significantly increase the risks associated with this activity and would not be complying with best practice.

IMPLICATIONS:

Budget/Policy Framework: Compliance with the Policy and Strategy Documents will enable the Council to secure the most favourable terms for raising funds, maximise returns on investments whilst at all times minimising the level of risk to which it is exposed.

Financial: See above.

CAPITAL EXPENDITURE	**2008/ 2009 £**	**2009/ 2010 £**	**2010/ 2011 £**	**2011/ 2012 £**
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
REVENUE IMPLICATIONS				
Gross Increase in Revenue Expenditure				
Funded by:				
Sefton funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date? Y/N		When?		
How will the service be funded post expiry?				

Legal: None.

Risk Assessment: The Policy and Strategy Documents minimise the level of risk to which the Council is exposed.

Asset Management: None.

CONSULTATION UNDERTAKEN/VIEWS

None.

CORPORATE OBJECTIVE MONITORING:

Corporate Objective		**Positive Impact**	**Neutral Impact**	**Negative Impact**
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity		√	
4	Improving Health and Well-Being		√	
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

Treasury Management in the Public Services – Code of Practice CIPFA 2001.
The Prudential Code for Capital Finance in Local Authorities CIPFA 2003.

1. Background

1.1. The Council has previously adopted CIPFA's revised 2001 Code of Practice on Treasury Management in the Public Services which recommends the production of annual Treasury Management Policy and Strategy Documents.

1.2. In addition the Council has also adopted, and incorporated into both documents:

a) The requirements of the 2003 Prudential Code for Capital Finance in Local Authorities; and,
b) An Investment Strategy produced in line with guidance from the then ODPM concerning the investment of surplus funds. This sets out the manner in which the Council will manage its investments, giving priority to the security and liquidity of those investments.

2. Treasury Management Policy and Strategy Documents

2.1. The Code requires the Council to produce:

a) A Treasury Management Policy Document – which outlines the broad procedures, considerations and parameters within which the Treasury Function will operate; and
b) A Treasury Management Strategy Document – This sets out specific treasury activities which will be undertaken in compliance with the Policy in 2009/2010.

2.2. The proposed Policy and Strategy Documents are attached at **Annex A and B** respectively.

2.3. Current economic conditions have been volatile over the last 12 months and concerns have been raised regarding the Treasury Management function within public sector organisations. Specifically, questions have been asked regarding investments made and the value of investments held in any one banking group; Icelandic banks have been in particular focus. Whilst Sefton has not had any investments in Icelandic Banks, **the wider economic position has meant that a thorough review of the Treasury Management Policy and Strategy documents has been undertaken to identify whether any improvements can be made.**

2.4. The main changes to the proposed Strategy Document for 2009/2010 include modifications to the process of assessing where temporarily surplus resources should be invested, both in the medium and short term. It is proposed that the Council introduce a risk matrix (used by the Council's Treasury Management advisors, Sector) and that the ongoing review of which organisations satisfy the Council's Credit Rating Criteria is reported on a more regular basis to improve the transparency of the process (Section 2.7 of the Strategy);

2.5. All investments are made in accordance with the Council's Investment Criteria. This takes account of market and risk conditions at the time the investment is made.

2.6. Under the Council’s criteria, there may be a need to broaden the Counterparty List (as advised by Sector and other appropriate Treasury Management Advisors) in order to spread / reduce risks. Members need to note that these actions, together with the prevailing market conditions are likely to result in lower returns from investments than those achieved in recent years.

2.7. As an example, one option that is being considered is to invest in “Supra-National” bodies such as the European Investment Bank. Such organisations effectively have the backing of Governments and as such have the highest credit rating (and hence security). The arrangements for this type of investment tend to be for longer periods (5-10 years). Whilst they are liquid (providing immediate access to funds), the details of the impact of withdrawal on any returns will need to be investigated further.

2.8. In view of the complex nature of Treasury Management, especially in the current economic climate, the need for more focussed Member training has been recognised. More regular reports will not only be presented to Cabinet (who have the delegated responsibility), but also to Corporate Services Cabinet Member Meeting and the Audit and Governance Committee.

3. Financial Procedure Rules – Banking Arrangements

3.1. The Treasury Management Policy Document at **Annex A** delegates certain responsibilities to the Finance Director, including all executive decisions on borrowing, investment or financing, in line with the Constitution of the Council.

3.2. The Constitution (Financial Procedure Rules – Banking Arrangements Para 8.2) currently provides the following:

“No overdraft shall be permitted save on the general account, a maximum overdraft for which shall be fixed from time to time by the Council following recommendations by the Finance Director …”

3.3. In order to facilitate a “group” approach to the Council’s bank account and related individual balances (a number of services provided by Sefton have bank accounts separate to the Council’s main account), it is recommended that the paragraph be reworded as follows:

“On a day to day basis, no overdraft shall be permitted unless agreed by the Finance Director. A maximum overdraft shall be fixed from time to time by the Council following recommendations by the Finance Director ….”

4. Money Laundering Policy Document

4.1. Revised Money Laundering Regulations have been issued and within this the Council is obliged by legislation and professional requirements to adopt procedures to prevent criminal activity through Money Laundering. The Money Laundering Policy Document is attached at **Annex C** for approval, which outlines the approach the Council will adopt to comply with its legal obligations.

5. Minimum Revenue Provision (MRP) for Debt Repayment Policy Document

5.1. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 introduced changes to the calculation of the MRP.

5.2. As a transitional arrangement for 2008/09, authorities were able to continue to calculate MRP as in previous years i.e. 4% of the underlying need to borrow for capital purposes, as measured at 31 March 2008. The Council's revenue budget for 2008/09 was constructed on this basis.

5.3. To comply with the legislative changes, the Council has, from 2009/10, retained this calculation for borrowing supported through the Revenue Support Grant but for unsupported prudential borrowing, MRP will be calculated using the depreciation method. This links the charges to revenue more closely to the life of the asset. The Council's Revenue Budget for 2009/10 has been constructed on this basis.

5.4. The change in legislation also allows Councils to apply an MRP "Holiday" on large projects, the costs of which span a number of financial years. Rather than starting to charge MRP as the expenditure is incurred, the option is given to apply MRP only when the scheme becomes operational. The total level of MRP remains unchanged, only the timing of the charge is altered. This option is considered to be the most appropriate for use within Sefton and has been incorporated in both the 2008/09 and 2009/10 MRP calculations.

6. Recommendations

Cabinet is recommended to:

a) Agree the Treasury Management Policy Document for 2009/2010 (**Annex A**);
b) Agree the Treasury Management Strategy Document for 2009/2010 (**Annex B**);
c) Approve the amendment to Banking Arrangements contained within the Financial procedures Rules of the Constitution (Para 3);
d) Agree the Money Laundering Policy Document (Para 4 and **Annex C**);
e) Agree the basis to be used in the calculation of the Minimum Revenue Provision for debt repayment in 2009/10 (Para 5);
f) Refer the report to Council for approval.

ANNEX A

SEFTON COUNCIL

TREASURY MANAGEMENT

POLICY

2009/2010

FINANCE DEPARTMENT

1. <u>Treasury Management Policy</u>

1.1. The Council defines Treasury Management as:

The management of the Authority's 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.

1.2. The Council's Statement of Treasury Management Policy is:

a) Effective Treasury Management is acknowledged as providing support towards the achievement of the Council's 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;
b) The successful identification, monitoring and control of risk is regarded as being the prime criteria by which the effectiveness of the Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

1.3 A dedicated team of three officers carries out the day-to-day treasury management activities. Two of the current officers are qualified accountants, whilst the third is a qualified accounting technician.

1.3.1 Members should receive training in the Treasury Management function, in order to assist in the understanding of this relatively complex area. This will be addressed via the provision of regular reporting to Cabinet, Corporate Services Cabinet Member Meeting and the Audit and Governance Committee.

2. <u>Treasury Management Strategy</u>

2.1. The Annual Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Policy. The strategy for 2009/2010 is attached at **Annex B**.

3. <u>Delegated Powers</u>

3.1. The Finance and Information Services Director, under the Council's Constitution, is given the following authority:

a) All money in the hands of the Council shall be aggregated for the purposes of Treasury Management and shall be under the control of the Finance and Information Services Director, the Officer designated for the purposes of Section 151 of the Local Government Act, 1972;
b) All executive decisions on borrowing, investment or financing shall be delegated to the Finance and Information Services Director (or in his

absence the Senior Assistant Finance and Information Services Director) who shall be required to act in accordance with the Council's Treasury Policy, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

4. Reporting Requirements/Responsibilities

4.1. Council

Council will approve, prior to each financial year, the Treasury Management Policy and Strategy Documents.

4.2. Cabinet

Cabinet will:

a) Consider, prior to each financial year, Treasury Management Policy and Strategy Documents and refer them to Council for approval;
b) Implement and monitor these Documents, approving any in-year amendments (at least on a quarterly basis) necessary to facilitate continued effective Treasury Management; and
c) Receive an annual outturn report on Treasury Management activity prior to the 30th June following each financial year.

4.3. Audit and Governance Committee

Audit and Governance Committee

a) Monitor these Documents on at least a quarterly basis necessary to facilitate continued effective Treasury Management; and
b) Receive an annual outturn report on Treasury Management activity prior to the 30 June following each financial year.

4.4. Finance Director

The Finance Director will:

a) Draft and submit to Cabinet and Council prior to each financial year, Treasury Management Policy and Strategy Documents;
b) Implement and monitor these Documents resubmitting any necessary in-year revisions/amendments (at least on a quarterly basis) to Cabinet for approval;
c) Draft and submit an annual outturn report on Treasury Management activity to Cabinet by the 30 June following each financial year-end; and
d) Maintain suitable Treasury Management Practices (TMP), setting out the manner in which the Council will seek to achieve its objectives. The TMP's will also prescribe how the treasury activities will be managed and controlled.

ANNEX B1

SEFTON COUNCIL

TREASURY MANAGEMENT

STRATEGY

2009/2010

FINANCE DEPARTMENT

SEFTON COUNCIL

Treasury Management Strategy

1. Introduction

1.1. The Treasury Management Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Treasury Management Policy.

Due to the current climate within the financial sector, an update upon the current position will be presented quarterly.

1.2. The Strategy had been produced to incorporate the requirements of the CIPFA Code of Practice on Treasury Management and the 2003 Prudential Code for Capital Finance.

Economic Background

The current economic background has been particularly turbulent over the last two quarters, and this has put treasury management within the authority under scrutiny.

After initial concerns about inflation, fuelled particularly by the rise in oil prices, caused the Monetary Policy Committee to eschew reductions in the bank base rate, growth slowed across the economy and inflation fell. As fears about the depth of the economic downturn rose, a round of interest rates cuts began with a cut of 1.5% in November 2008, and further 0.5% reductions in January and February 2009. This has not stimulated lending in the current credit crunch, with the LIBOR rate (the rate at which banks lend to each other) being much higher than the bank base rate.

The banks are reluctant to lend to each other as they are desperate to maintain liquidity. This has meant abnormally high investment returns, and the erosion of the Monetary Policy Committee's power over monetary policy giving it a limited ability to force banks to reduce interest rates. However, the injection of capital into banks and the part nationalisation of certain institutions may have an impact in reducing some lending rates.

The authority has benefited from high investment returns, but the reduction in base rates is now feeding into reduced investment returns.

2. Treasury Management Strategy 2009/2010

2.1. The Strategy for 2009/2010 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2008/2009 to 2010/2011 (2.3);
c) Interest Rates (2.4);
d) Capital Borrowing (2.5);
e) Debt Rescheduling opportunities (2.6);
f) Investment Strategy (2.7).

2.2. Treasury Limits for 2009/2010

The Treasury Limits set by Council in respect of its borrowing activities are:

The overall or Affordable Borrowing Limit.	Maximum £196m

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the ‘Affordable Borrowing Limit’. The Affordable Borrowing limit takes into account the Council’s current debt, an assessment of external borrowing to finance the Capital Programme in 2009/2010, the need to finance capital expenditure previously met from internal funding, and cash flow requirements.

The amount of overall borrowing, which maybe outstanding by way of short-term borrowing.	Maximum £15m

The Short – Term Borrowing limit takes into account an assessment of any potential short-term financing the Council may need (e.g. bank overdraft, short-term funding in anticipation of grant receipts). Short-Term Borrowing is defined as being for less than 12 months.

The proportion of external borrowing which is subject to variable rate interest.	Maximum 33%

The limit on variable rate borrowing gives the Council flexibility to finance expenditure at favourable market rates, but ensures Council exposure to variable interest commitments is within prudent levels.

2.3. <u>Prudential Indicators</u>

The following prudential indicators are considered relevant by CIPFA for setting an integrated Treasury Management Strategy.

2.3.1. <u>Interest Rate Exposure Indicators</u>

Fixed rate borrowing and investment has the benefit of reducing the uncertainty surrounding future interest rate changes. However, in looking to improve performance best practice recommends retaining a degree of flexibility through the use of variable rates on at least part of the Treasury Management Activity.

To ensure that the risk associated with improved performance which may be achieved by using variable loans and investments is minimised, it is necessary to establish indicators to control the position. The control is based on setting an upper limit for both fixed and variable interest rate exposures expressed as a percentage of the Council's net outstanding principal sum. The following indicators are to be used:

Upper Limit for Interest Rate Exposures	**2008/09 %**	**2009/10 %**	**2010/11 %**
Upper limit for fixed interest rate exposure expressed as a percentage of net outstanding principal sum	160	160	160
Upper limit for variable interest rate exposure expressed as a percentage of net outstanding principal sum	15	15	15

2.3.2. <u>Non Specified Investment Indicator</u>

The Investment Strategy (Para 2.7.4) allows non-specified investments to be made using funds managed by the Council. The indicator is designed to control the level of such non-specified investments when compared to the overall investments of the Council.

Upper Limit on Non-Specified Investments	**2008/09 %**	**2009/10 %**	**2010/11 %**
Upper limit on the value of non-specified investments as a percentage of total investments	40	40	40

2.3.3. Debt Maturity Indicators

The indicators are designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of high interest rates. The control is based on the production of a debt maturity profile, which measures the amount of borrowing that is fixed rate that will mature in each period as a percentage of total projected borrowing that is fixed rate. Any borrowing decision and related maturity dates will be taken by the Council mindful of maturity profile limits set out below to ensure large concentrations of debt do not fall due for repayment in any one future financial year. The profile reflects borrowing advice provided by Sector, the Council's Treasury Management Advisors, and has been agreed with them.

Maturity Structure of Fixed Rate Borrowing During 2008/2009	**Upper Limit %**	**Lower Limit %**
Under 12 month	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	25%

2.4. Interest Rates

2.4.1. The Council currently employs Sector Treasury Services Ltd ("Sector") to provide regular forecasts of interest rates to assist decisions in respect of:

a) Capital Borrowings (2.5);
b) Debt Rescheduling opportunities, (2.6); and
c) Investments strategy (2.7).

2.4.2. **Annex B2** gives details of Sector's central view regarding interest rates.

2.4.3. The advice from Sector takes into account financial activity both in the UK and world economies and the impact of major national and international events. It is essential that borrowing and investment decisions are taken mindful of independent forecasts as to interest rate movements. The Council will continue to act on the advice of Sector.

2.5. Capital Borrowings

2.5.1. The Council's debt portfolio as at 12th February 2009 is as set out below:

Debt Portfolio	
Average Interest Rate	4.93%
Debt Outstanding – Fixed Rate	£m
PWLB	127.122
Other Borrowing	0.024
Other Long Term Liabilities	7.658
Total Debt	134.804

2.5.2. The Council will raise its required finance, following advice from Sector, from the Public Works Loan Board (PWLB).

The Council's borrowing requirement for 2009/2010 is as follows:

Borrowing Requirement	**Estimate £m**
New Borrowing	24.922
Replacement Borrowing	3.700
Total Borrowing	28.622

2.5.3. The Sector forecast for PWLB interest rates (as set out at **Annex B2**) is as follows:

a) The 50 year PWLB rate is expected to remain around 3.90 – 4.00% until Q4 2010 when it is forecast to rise to 4.25%. The rate then edges up gradually to reach 5.05% at the end of the forecast period;

b) The 25 year PWLB rate is expected to drop to 3.95% in Q2 2009 and stay around there until starting to rise in Q1 2010 and then to eventually reach 5.10% at the end of the forecast period;

c) The 10 year PWLB rate is expected to drop to 3.20% in Q3 2009 but then to start rising again in Q2 2010 to eventually reach 4.90% at the end of the forecast period;

d) The 5 year PWLB rate is expected to fall to a floor of 2.30% during Q3 2009. The rate then starts rising in Q2 2010 to eventually reach 4.60% at the end of the forecast period.

2.5.4. The authority is currently internally borrowed, with total PWLB borrowings of £127.122m, as against a CFR of £170m for 2009/10, which does have the advantage of reducing exposure to interest rate and credit risk.

2.5.5. The borrowing strategy will therefore be to consider borrowing in or near the sub 10 year period at any time when the rate falls back to the central forecast rate of 3.20%, which will be used as a “trigger point” for considering new borrowing. If shorter period loans become available below this rate, for example under one year at 2.30%, these will also be considered. This is expected to be slightly lower in the middle to the end of the year than earlier on, therefore it may be advantageous to borrow later in the year.

2.5.6. However, Sector predict that the next financial year is expected to be a time of a historically low bank base rate. The authority may consider internal borrowing. As long term borrowing rates are expected to be reasonably high, then the authority may decide to avoid all external borrowing. This will also reduce exposure to interest rate risk and credit risk.

2.5.7. Against this background, caution will be adopted in undertaking borrowing in 2009/2010. The Finance Director will monitor the interest rate market and following advice from Sector, adopt a pragmatic approach to changing circumstances during the year.

2.6. Debt Rescheduling Opportunities

2.6.1. The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date.

2.7. Investment Strategy

2.7.1. The Council manages the investment of its surplus funds internally, and operates in accordance with the Guidance on Local Government Investments issued by ODPM in March 2004 and CIPFA’s Treasury Management in Public Services: Codes of Practice.

2.7.2. Under the system of guidance investments are classified as Specified or Non Specified.

Specified Investments are those which satisfy the following conditions:

a) The investment and all related transactions are in sterling;
b) The investment is short-term i.e. less than 12 months;
c) The investment does not involve the acquisition of share or loan capital; Either:
   i) The investment is made with the UK Government or local authority; OR
   ii) The investment is made with a body or scheme, which has been awarded a high credit rating by a credit rating agency.

Non Specified Investments are those that do not meet the above definition.

2.7.3. The Council's investment portfolio as at 12 February 2009 is set out below:

Investments Portfolio	**£m**
Specified Investments Non-Specified Investments	61.920 5.000
Total	66,920

2.7.4. The Council banks with National Westminster, which is part of the Royal Bank of Scotland Group. Due to financial difficulties they do not currently fall within an acceptable risk category for investment. The Group is however 70% owned by the State and therefore, the risk of default on any investment is likely to be minimal. Whilst no medium term investments will be entered into with the Group, the overnight investments in Reserve Accounts will continue. This will be reviewed regularly during the year.

2.7.5. The Council Strategy will be:

a) To make Specified Investments in line with the above conditions;
b) To make Non Specified Investments which satisfy all of the above with the exception of a) which is extended to a period of less than 5 years;

It is suggested that the following investment vehicles should be made available to the authority:

Investment	**Reason**	**Risk**
Term deposits made with banks and building societies as listed in annexe B4, following the investment criteria as listed in annexe B5. Nat West also acceptable on an overnight basis. Can also deposit with Local Authorities.	Certainty of rate of return and repayment of capital	Liquid, with potential for deterioration in credit risk. Local Authorities not credit rated.
Supra-national bonds	Greater levels of security of investment. A fairly liquid investment, though not as liquid as Gilts	High credit rating as placed with EIB and World Bank (AAA rated). Bond price may vary if sold early
Money Market Fund (MMF)	Similar or better rate than bank deposits, with no penalty charge for early redemption. Same day liquidity	High credit rating via the International Money Market Fund Association or IMMFA (AAA rated)
Gilts	Liquid and very secure.	High credit rating as

	Interest paid every six months	Government backed (AAA rated). Bond price may vary if sold early
Treasury Bills	Liquid and very secure. Duration of < 1year	No interest paid – they are zero- coupon rated.
Debt Management Agency Account Deposit Facility (DMADF)	Secure investment	High credit rating as Government backed (AAA rated). Interest earned low. Investment cannot be repaid early

It is NOT proposed that the Council will be making any Non Specified Investments in 2009/2010 that do not comply with the above, however, should the situation change, the Finance Director will report to Cabinet requesting appropriate approval to amend the Strategy before any such investments are made.

2.7.6. The Bank of England Base Rate in December 2007 was 5.5%. The rate has reduced significantly since that date, particularly in the latter half of 2008 and the first quarter of 2009. The current Base Rate currently stands at 1.0%. Sector's projections expect the rate to stabilise at 0.5% until starting to rise gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012. Sector's current interest rate view is outlined at **Annex B2**. Given the volatility of the market, the forecasts can only be used as a general guide to the future position. Consequently for 2009/10, the Authority has taken a prudent view and budgeted for an investment return of 0.5% on investments placed during 2009/10.

2.7.7. In order to pursue the strategy of maximising returns from surplus funds at minimum risk, the following Brokers as suggested by Sector will be utilised for investments of over one month:

i) Sterling International Brokers Limited;
ii) Tradition UK Limited;
iii) Tullet Prebon Limited.

2.7.8. Virtually any investment involves risk. The Council will consider the credit ratings supplied by a variety of recognised money market organisations, as part of the process to determine the list of Banks where the level of risk is acceptable. As a means of clarifying the level of acceptable risk, the Risk Matrix at **Annex B3** will be used. The Council will only invest in Banks that have a Risk Matrix scoring of F1+, AA- and Buildings Societies with a score of F1 (i.e. low risk) using the Fitch scoring methodology. The current list of Banks at **Annex B4** has been produced for information; this takes account of the most up-to-date credit ratings available in respect of the Banks and Building Societies named. It has also been rationalised to only include institutions that are backed by a sovereign rating of AAA, which implies that national Governments would support the Banks if they were facing financial difficulties. The organisations listed will be monitored daily with the assistance of Sector to ensure they continue to meet the requirements outlined at **Annex B5**. In the event of a change in credit rating or outlook, the Council, with advice from Sector, will evaluate its significance and determine whether to include (subject to Cabinet approval) or remove the organisation from the approval list.

2.7.9. **Nationalised banks** are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1. Hence on both counts they have the highest ratings possible.

2.7.10. **UK banking system support package.** Please note that the UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package.

2.8. If any of the Council’s investments appear at risk of loss due to default (ie this is a credit related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

ANNEX B2

SECTOR INTEREST

RATE FORECAST

Sector's Interest Forecast as at 12 February 2009

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.60%	2.45%	2.30%	2.30%	2.30%	2.50%	2.85%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.60%	3.35%	3.20%	3.20%	3.25%	3.35%	3.60%	3.95%	4.30%	4.55%	4.80%	4.85%	4.90%
25yr PWLB rate	4.15%	4.05%	4.00%	4.00%	4.10%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.05%	5.10%
50yr PWLB rate	4.10%	3.95%	3.90%	3.90%	3.95%	4.00%	4.05%	4.25%	4.45%	4.70%	4.85%	4.95%	5.05%

RISK ASSESSMENT MATRIX

PROBABLITY OF DEFAULT

F3 6 Speculative grade	F3/B 12 Speculative grade	F3/C 18 Speculative grade	F3/D 24 Speculative grade	30 Speculative grade	36 Speculative grade
F2 5	F3 10 Speculative grade	F3/B 15 Speculative grade	F3/C 20 Speculative grade	F3/D 25 Speculative grade	30 Speculative grade
F1 4	F2 8	F3 12 Speculative grade	F3/B 16 Speculative grade	F3/C 20 Speculative grade	F3/D 24 Speculative grade
F1+/AA- 3	F1 6	F2 9	F3 12 Speculative grade	F3/B 15 Speculative grade	F3/C 18 Speculative grade
F1+/AA+ 2	**F1+/AA- 4**	**F1+/AA- 6**	F2 8	F3 10 Speculative grade	F3/B 12 Speculative grade
F1+/AAA 1	**F1+/AA+ 2**	**F1+/AA- 3**	F1 4	F2 5	F3 6 Speculative grade

RETURN ON INVESTMENT

RISK TOLERANCE	4
LOW RISK	4
MEDIUM RISK	9
HIGH RISK	25

ANNEX B4

COUNTER PARTY LISTING (@ 16 February 2009)

BANKING INSTITUTIONS / BUILDING SOCIETIES

RATING	INDIVIDUAL RATING	SUPPORT RATING	INVESTMENT
F1+ / AAA	***A***	***1***	

Bank Nederlandse Gemeenten

F1+ / AA+	***A***	***1***	

Rabobank International

F1+ / AA	***A/B***	***1***	

Wachovia
Wells Fargo
HSBC *
BNP Paribas

Banco Santander

F1+ / AA	***B***	***1***	

Barclays *
ING Bank

F1+ / AA-	***A/B***	***1***	

Banco Bilboa

F1+ / AA-	***A/B***	***2***	

Bank of NY Mellon

F1+ / AA-	***B***	***1***	

Abbey National
AIB *
Lloyds TSB
Bank of Montreal
Bank of Nova Scotia
Canadian Bank of Commerce
*

Toronto Dominion Bank *			
Danske Bank *			
Nordea Bank			
Societe General			
Deutsche Bank *			
Svenska Handelsbanken			
HSBC USA			
JP Morgan Chase			
F1+ / AA-	***B***	***2***	
DBS			
Overseas Chinese Banking Co			
United Overseas Bank			
Confederation Espanol De Casas			
Royal Bank of Canada			
F1+ / AA-	***B/C***	***1***	
Clydesdale			£5m
Credit Industrial et Commercial			
Credit Suisse *			
Nationwide			
Alliance & Leicester			
F1+ / AA-	***C***	***1***	
Dexia Banque			
Bank of Scotland HBOS			£10m
CNCE Industrial et Commercial *			
F1 /B			
Building Societies			
Coventry			
Leeds			
Institutions no longer on list			
RBS/Natwest			£11.9m
			£10m
Bank of Ireland			
AIB			£5m
Derbyshire BS			£7.5m
Newcastle BS			£2.5m
Norwich BS			£5m
Principality BS			£5m
Skipton BS			£5m
			£66.90m

* Denotes on rating watch – see below

FITCH RATING EXPLANATION

Short term rating

This places greater emphasis on the liquidity necessary to meet financial commitments.

F1 – highest credit quality - + denotes exceptionally strong
F2 – good credit quality
F3 – fair credit quality

Long term rating

AAA – highest credit quality – lowest expectation of credit risk and exceptionally strong capacity to pay financial commitments
AA - very high credit quality – very low credit risk and very strong capacity to pay financial commitments
A - high credit quality – low credit risk and considered to have strong capacity to pay financial commitments, but may be vulnerable

Individual rating

This assesses how a bank would be viewed if it were entirely independent and could not rely on external support.

A – very strong bank – outstanding profitability and balance sheet integrity
B – strong bank – no major concerns regarding the bank
C – adequate bank – may have one or two troublesome characteristics
D – weak
E - serious problems
F – defaulted

Support rating

Judgement of a potential supporter's (either sovereign state of parent) propensity to support the bank and it's ability to support it.

1 – extremely high probability of external support
2 - extremely high probability of external support
3 – moderate probability
4 – limited probability
5 – cannot rely on support

Rating watch

This suggests that there is likely to be a rating change of any of the above four ratings.

Investments with UK and International Banks (including the Nationwide Building Society) are limited by the Finance Director to a maximum principal sum of £15m with any of the institutions listed above. A group limit of £15m will also be applied to institutions that are part of a group.

Investments with Building Societies (excluding Nationwide) listed above are limited to a maximum principal sum of £7.5m. With the exception of the Nationwide Building Society, investments in Building Societies of 1 year and over are not permitted. A group limit of £7.5m also applies as noted above.

Investment with the Government's Debt Management Account Deposit Facility (DMADF), local authorities or any AAA MR1 + rated or equivalent Money Market Fund (with a maximum 60 day weighted average maturity) will be limited to a maximum principal sum of £15m.

ANNEX B5

SEFTON COUNCIL

STANDARD LENDING LIST CRITERIA – INTERNALLY MANAGED FUNDS

The Standard Lending list is drawn from the largest UK banks, building societies and major international banks. All banks are authorised institutions within the meaning of the Financial Services and Markets Act 2000.

The criteria used in compiling the Standard Lending list are as follows:

UK Banks and International Banks (including Nationwide Building Society)

1. Only institutions with the following Fitch ratings appear on the lending list:

Sovereign rating	AAA
Short tem	F1+
Long term	AA-
Individual rating	C
Support rating	2

2. Activity in Sterling Markets

   Only institutions that are active in the sterling money markets appear on the lending list.

Building Societies

1. Rating

   Only institutions within the following ratings appear on the lending list:

   Short term: F1 (Fitch) or P-1 (Moody's)

   Investments are limited to 3 months in duration.

1. Activity In Sterling Markets

   Only institutions that are active in the sterling money markets appear on the lending list.

2. Size

   Building Societies – minimum total assets £2,000 million.

ANNEX C

SEFTON COUNCIL

MONEY LAUNDERING

POLICY

FINANCE DEPARTMENT

1. Introduction

1.1. This document sets out the Council's policy in relation to money laundering. The aim of the policy is to outline the approach the Council will adopt complying with its legal and professional obligations in relation to money laundering. The policy applies to all employees of the Council and aims to maintain the high standards of conduct that currently exist within the Council by preventing criminal activity through money laundering.

2. What is Money Laundering?

2.1. Money laundering is defined within Part 7 of the Proceeds of Crime Action (POCA) 2002 and Section 18 of the Terrorism Act 2000.

2.2. Money laundering is defined as:

a) Concealing, disguising, converting, transferring criminal property or removing it from the UK (s327 of the POCA 2002); or
b) Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control or criminal property by or on behalf of another person (s328 of the POCA 2002); or
a) Acquiring, using or possessing criminal property (s329 of the POCA 2002); or
b) Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (s18 of the Terrorism Act 2000).

2.3. The above are the primary money laundering offences and thus prohibited acts under the legislation.

2.4. Potentially, any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it and/or do nothing about it. This policy outlines the approach to be taken in raising any concerns about money laundering.

2.5. It is recognised that the risk to the Council of contravening the legislation is low. However, it is extremely important that all employees are familiar with the legal responsibilities, as serious criminal penalties can be imposed for breaches of the legislation.

3. Obligations on the Council

3.1. The Council is required to undertake the following:

a) Appoint a Money Laundering Reporting officer ("MLRO") to receive disclosures from employees concerning suspicions of money laundering activity;
b) Implement disclosure procedures to enable the reporting of suspicions of money laundering by all staff;
c) Provide training to those staff considered to be most likely to encounter money laundering.

4. <u>The Money Laundering Reporting Officer</u>

4.1. The officer nominated to receive disclosures about money laundering activity within the Council is John Farrell, Assistant Finance and Information Services Director, Revenues & Benefits, who can be contacted as follows:

Address: 3rd Floor, Merton House, Stanley Road, Bootle, L20 3FD
Telephone No: 0151 934 4339.

4.2. The officer nominated to act as deputy in the absence of the MLRO is Lynton Green, Senior Assistant Finance and Information Services Director, who can be contacted as follows:

Address: 3rd Floor, Merton House, Stanley Road, Bootle, L20 3FD
Telephone No: 0151 934 4096.

5. <u>Disclosure Procedure</u>

5.1. Following approval of the policy, guidelines will be separately produced by the MLRO and made available to all staff detailing the action that should be taken in the event of suspicions of money laundering. They will include a value limit for cash transactions above which staff must report the transaction to the MLRO. The value of this transaction limit has been set at £10,000.

5.2. The Guidelines will be drafted in a manner that ensures the Council and its staff act in a manner which complies with the relevant money laundering legislation. The guidelines will detail:

a) How staff should report their suspicions to the MLRO;
b) Action to be taken by staff once the report has been made to the MLRO;
c) Evaluation action to be taken by the MLRO on receipt of a report;
d) Action to be taken by the MLRO following evaluation of the report.

6. <u>Training and Awareness</u>

6.1. The success of the Council's actions in seeking to prevent money laundering will depend largely on the communication of the policy and guidelines to staff, particularly those staff more involved in the handling of cash transactions which could be significant and exceed the transaction limit noted at Para 5.1. In respect of current staff, communication of the money laundering policy and guidelines will be carried out as part of the normal cascading of information by senior management within the Council and by publishing the documents on the intranet.

6.2. Communication of the policy and guidelines will also be achieved as part of induction training of relevant new employees of the Council.

7. Summary

7.1. The Council is determined to ensure that it has robust procedures in order to prevent money laundering as a result of criminal activity. This Policy has been written in order to ensure that the Council establishes procedures that will ensure that it meets its legal and professional requirements in relation to money laundering but in a way that reflects the low risk to the Council of contravening the legislation.