South Bucks
District Council

Capswood, Oxford Road, Denham, Bucks UB9 4LH
Telephone: 01895 837200 **DX:** 40261 Gerrards Cross
Fax: 01895 837 **Minicom:** 01895 837251
Website: www.southbucks.gov.uk

DEMOCRATIC AND ELECTORAL SERVICES

Dealt with by:	Bob Wearing	Switchboard:	01895 837200
Your Ref:		Fax:	01895 837277
My Ref:		e-mail:	democraticservices@southbucks.gov.uk
Date:	24 October 2011	Direct Line:	01895 837225

Dear Councillor

RESOURCES POLICY ADVISORY GROUP – SUPPLEMENTARY AGENDA

The Resources Policy Advisory Group will be held as follows:

DATE: **MONDAY, 31ST OCTOBER, 2011**

TIME: **6.00 PM**

VENUE: **ROOM 5, CAPSWOOD, OXFORD ROAD, DENHAM**

Yours faithfully

Jim Burness

Director of Resources

To: Members of the Resources Policy Advisory Group

Mr Wilson
Mr Chhokar
Mr Harding
Mr S W Jones
Mr Anthony
Mr Hardy
Mr Hollis
Mr Smith

Declarations of Interest

Any Member attending the meeting is reminded of the requirement to declare if he/she has a personal interest in any item of business, as defined in the Code of Conduct. If that interest is a prejudicial interest as defined in the Code the Member should also withdraw from the meeting.

AGENDA

4. **Investment Performance Quarter Ending 30 September 2011**

   To consider report of the Director of Resources. **(Pages 1 - 22)**

11. **Station Road Car Park**

   To consider report of the Director of Services. **(Pages 23 - 30)**

The next meeting of the PAG is due to take place on Thursday, 12 January 2012

This page is intentionally left blank

SUBJECT:	Investment Performance Quarter Ending 30th September 2011
REPORT OF:	Officer Management Team - Director of Resources Prepared by – Principal Accountant

1. Purpose of Report

1.1 To inform Members of the investment returns for the quarter ending 30th September 2011.

2. Links to Council Policies & Plans

2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1 The Council's Treasury Management Strategy 2011/12 details the following sources for generating investment income for the year:

(i) Set an estimated return on investment income for the year of £0.9 million.

(ii) Set the sources for generating income for the year as follows:

	£'000
Fixed & Callable Deposits	646
Short Term Cash Flow and Other Investments	179
Stoke Poges Memorial Gardens Fund	75
Total	900

3.2 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.

3.3 The Council has adopted the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.

3.4 The code recommends that reports on investment performance are made on a quarterly basis including a Mid-year Review Report. This report represents the second of these reports for 2011/12 and incorporates the mid-year review.

4. Investment Performance – Quarter to 30 September 2011.

4.1 <u>**In House Investments**</u> – Officers invest cash flow surpluses with approved counter parties. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. Members approved a new matrix for in house investments as part of the Treasury Management Strategy 2010/11 as follows.

	Fitch Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	AA+ or AA-	£7 million*	
	A to A+	£1 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA or better	£2 million	Investment decision will be based on balancing yield against duration

* Members agreed that for RBS only this limit is increased to £10 million whist the bank substantially remained in state ownership.

** As part of the Council's Treasury Management Strategy 2011/12 Members agreed to add the Co-operative Bank (A-) with a limit of £1 million, on the basis of the competitive rates it currently offers.

4.2 A summary of the Council's holdings of fixed deposits at 30th September 2011 is shown below:

UK Institutions	Sept Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	AA-					
Fixed Deposit		5,000,000	4.25%	08/02/11	08/02/16	(1)
Fixed Deposit		2,000,000	2.50%	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	AA-					
Fixed Deposit		1,000,000	2.25%	01/04/10	03/10/11	
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Fixed Deposit		1,000,000	2.50%	02/11/10	02/11/11	
Fixed Deposit		2,000,000	2.50%	16/11/10	16/11/11	
Total CA		7,000,000				
Lloyds Bank	AA-					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	11/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Bank of Scotland	AA-					
Fixed Deposit		3,000,000	2.10%	15/07/11	16/07/12	
Fixed Deposit		1,000,000	1.90%	04/10/10	04/10/11	
Fixed Deposit		1,000,000	2.05%	14/02/11	14/02/12	
Total Lloyds Group		7,000,000				
Barclays	AA-					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	

UK Institutions	Sept Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Fixed Deposit		1,000,000	1.415%	15/04/11	15/02/12	
Total Barclays		2,000,000				
Clydesdale	A+					
Fixed Deposit		1,000,000	1.25%	19/04/11	19/01/12	
Total Clydesdale		1,000,000				
Co-operative Bank	A-					
Fixed Deposit		1,000,000	2.50%	14/02/11	14/02/12	
Total Co-op Bank		1,000,000				
Total Deposits		25,000,000				

* Members have agreed a £10 million limit for RBS whilst it substantially remains in state ownership.

(1) RBS have the option to switch to 3 month LIBOR[1] plus 30 basis points in years 3,4 & 5.

(2) RBS have the option to switch to 3 month LIBOR 2 & 3.

4.2 In addition the Council held the following investments of short term cash at the end of the quarter:

	Amount £	Interest Rate	Notes
Nat West Bank	1,064,000	Base + 34 Basis Points	Instant Access
Nat West Bank	4,000,000	Base + 60 Basis Points	30 Day Notice Account
Bank of Scotland	500,000	1.35%	95 Day Notice Account
Total	5,564,000		

Since 30th September 2011 the following investment action has taken place:

Reinvestment of the £1 million 2.25% fixed deposit with Cater Allen that matured on 3rd October 2011 for a further year at a rate of 2.50%

Reinvestment of the £1 million 1.90% fixed deposit with the Bank of Scotland that matured on 4th October 2011 for a further year at a rate of 2.10%

Forward investment deals on the Cater Allen 2.50% fixed deposits listed below for a further year from their November maturity dates
£1 million at 2.50% matures on 2nd November 2011
£2 million at 2.50% on 16th November 2011

All of these investments have been renewed in order to maintain or improve their level of return against the forecast for interest rates detailed later in this report under 8.1

4.3 **Stoke Poges Memorial Gardens Fund:** The interest return from the fund is no longer credited directly to the Stoke Poges Memorial Gardens cost centre but has been incorporated with all of the Council's other investment returns.

4.4 The fund is managed on a passive basis by King & Shaxson .Due to the current cost of buying a new bond it is the current policy to reinvest any maturities within the Councils

[1] LIBOR – London Inter Bank Offered Rate

cash investment. There are no maturities from the Stoke Poges Memorial Gardens Fund due in 2011/12. The value of the fund at 30th September was £1,550,174.63

5. Treasury Management Strategy Update

5.1 The Treasury Management Strategy (TMSS) was approved by the Council on 22nd February 2011. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as

- Security of capital
- Liquidity

5.2 The Council also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered prudent to keep anything maturing short term for up to twelve months in order to take advantage of increases in interest rates during the second half of 2012/13 and to maintain a prudent minimum liquid reserve to maintain cash flow matters. This is reflected in the break down of the Council's investment portfolio detailed in 4.4 above.

5.3 Investments during the first six months of the year have been in line with the TMSS and there have been no deviations from the strategy which in the current uncertainty and volatility in the financial and banking markets is still considered fit for purpose.

5.4 On 13th October the rating agency Fitch revised downward to A the credit rating of most of the UK banks with the exception of Barclays, HSBC and Santander UK. The change reflects Fitch's view that support dynamics are changing in the UK. The banking system is not only large relative to the UK economy, but there is also more advanced political will to reduce the implicit support for the country's banks, building on The Banking Act 2009 and, more recently the various policy recommendations of the Independent Commission on Banking (ICB). Fitch believes that support for these banks is likely to remain high until elements of the UK banking sector complete their rehabilitation and some of the more practical aspects of bank resolution can be implemented. There is also the potential for the provision of extraordinary support for senior bank creditors to be relatively less certain than before. For Lloyds Banking Group (LBS) and Royal Bank of Scotland Group (RBSG) both of these banking groups have shown steady improvement in their risk profiles and prospects over the past two years and, assuming there is no major fallout from the euro zone crisis, for example, ought to be able to achieve higher ratings over the medium and long term.

5.5 This rating change would mean that as things stand the Council would have to significantly reduce its investments with most of the major UK as investments mature. It would also be faced with having a very limited range of counterparties to place funds of more than £1m with. The Council will not have to address this issue until 2012/13, as there is no suggestion that any of these banks are danger of default. A new Treasury Management Strategy for 2012/13 will be brought to this PAG at its meeting on 12th January 2012, and decisions on how to respond to the situation can be taken at that time.

5.6 In the current climate of low interest rates the review of the Treasury Management Strategy will also examine the situation around corporate bonds. This will identify what bonds of sufficient credit rating (see para 4.1) are available with yields above what the Council is likely to achieve on its cash investments. It will also establish what period the Council would have to hold these bonds for in order to avoid the risk of loss of capital, as it is not the intention to seek profits by trading bonds as that would require the use of external advisers.

6. Investment Policy and Procedures

6.1 As detailed in 3.3 above the Council has adopted the CIPFA Code of Practice on Treasury Management.

6.2 The Code recommends the creation & maintenance of Treasury Management Policy & Procedures.

6.3 It is not normally expected that the procedures will need to be revised very often and any changes have therefore been delegated down to me as Chief Finance Officer. A copy of the document is brought to Members attention on an annual basis and a copy has therefore been attached at Appendix A for Members information.

7. Economic Background

7.1 The second calendar quarter of the year saw:

- Indicators suggesting that the economy has at best stagnated
- Conditions on the high street have deteriorated further
- Employment has fallen again
- The public finances are expected to miss this years fiscal forecasts
- CPI inflation rising, heading for a peak of around 5% in Q4
- The Monetary Policy Committee signalling a move to increasing Quantitative Easing
- Equities prices plummet and gilt yields fall to historic lows
- The economic recoveries falter in the US and Europe

7.2 **<u>Global Economy</u>**
The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon joining with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the 440bn euro bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

7.3 This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy. Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

7.4 **<u>UK Economy</u>**
Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.01% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

7.5 The announcement by the MPC on 6th October of a second round of quantitative easing (QE) of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE.

7.6 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.

7.7 **Outlook for the next six months of 2011/12**
There remain huge uncertainties in economic forecasts due to the following major difficulties:

- The increase in risk that the UK,US and EU could fall into recession
- The likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- The potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economies
- The degree to which government austerity programmes will dampen economic growth
- The potential for further quantitative easing, and the timing of this in both the UK and US
- The speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU sovereign debt

The overall balance of risks is weighted to the downside:

- Sector expects low growth in the UK to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.

- The expected longer trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increase until 2012.

A more detailed economic assessment at September 2011 is shown at appendix B

8. Interest Rate Forecasts

8.1 The latest forecast for interest rates provided by Sector is shown below:

	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 12	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%

The Sector central forecast is for the first increase in bank rate to be in September 2013 previous forecasts had shown a prediction of the first increase to be in June 2012. Sector have made comment of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments (or lack of them) in the sovereign debt crisis.

A more detailed summary outlook on the prospects for interest rates is shown at appendix C

9. Resources, Risk & Other Implications

9.1 The investment budget set for the year is £900,000.The Council is currently on target to meet the investment budget for the year however the budget for 2011/12 had an assumption built in that interest rates would rise in the last quarter of the year which is no longer forecast to happen and there maybe a small underachievement in matching the target which will become more apparent as the year progresses.

10. Summary

10.1 The PAG is requested to:

1. Note the investment performance for the quarter to 30th September 2011.

Officer Contact:	**Mr H Woodbridge – Ext 7319** **Email address – howard.woodbridge @southbucks.gov .uk**
Background Papers:	**None**

This page is intentionally left blank

Appendix A

SOUTH BUCKS DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY & PROCEDURES

OCTOBER 2011

SOUTH BUCKS DISTRICT COUNCIL

OVERALL POLICY STATEMENT FOR TREASURY MANAGEMENT

1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002. In the light of the Icelandic situation in 2008 the CIPFA amended the code in 2009 which was adopted by Members in February 2010.

2. The revised Code includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses including a revised definition of treasury management activities. The clauses and definition are set out below:

Treasury Management Policy Statement.

- This organisation defines its treasury management activities as "The management of the authority's investment and cash flows, its banking, money market and capital market transactions :the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

- This organisation regards the successful identification, monitoring and control risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

- This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance techniques, within the context of effective risk management.

Adoption of the revised CIPFA Treasury Management Code of Practice 2009

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

1. This organisation will create and maintain, as the cornerstone for effective treasury management:

    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

    - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

2. This Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Resources

Portfolio Holder, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

Adoption of the Code in practice

•

The revised Code is built largely on what was recommended practise in the previous version, but does place grater or new emphasis in certain key areas. The main points in the new Code are as follows:

a) All councils must formally adopt the revised Code and four clauses.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. This is consistent with the approach always adopted by this Council.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation. This is something the Council has always been clear about, in that whilst it uses advisers and external sources of information, that it is the officers and members of the authority who are accountable for policy and decisions.

e) Credit ratings should be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and credit ratings of that government support.

f) Councils need a sound diversification policy with high quality counterparties and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme. As a debt free authority this is not an issue that arises for the Council.

h) The main annual treasury management reports must be approved by full council.

i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. For South Bucks this requirement is met by the regular reports to the Resources Portfolio Holder.

j) Each council must delegate the role of security of treasury management strategy and policies to a specific named body. For South Bucks DC this is carried out by the Resources PAG.

k) Treasury Management performance and policy setting should be subject to prior scrutiny. This is achieved via the regular discussions on Treasury Management at the Resources PAG.

l) Members should be provided with access to relevant training.

m) Those charged with governance are also personally responsible for ensuring that they have the necessary skills and training.

n) Responsibility for these activities must be clearly defined within the organisation.

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

p) The Council has adopted the following reporting arrangements in accordance with the requirements of the revised code:

Area of Responsibility	Reporting Arrangements	Frequency
Treasury Management Policy (revised)	Resources PAG /Cabinet/Council	Initial adoption 2010
Treasury Management Strategy Annual Investment Strategy MRP policy	Resources PAG /Cabinet/Council	Annually before the start of the year
Treasury Management Strategy Annual Investment Strategy MRP policy – mid year report	Resources PAG /Cabinet/Council	Appropriate quarterly report to RPAG
Treasury Management Strategy Annual Investment Strategy MRP policy – updates or revisions at other times	Resources PAG /Cabinet/Council	As appropriate
Annual Treasury Outturn Report	Resources PAG /Cabinet/Council	Annually by 30 September after the end of the year
Monitoring Reports	Resources PAG /Cabinet/Council	Quarterly
Treasury Management Practices	Resources PAG /Cabinet/Council	Annually
Investment Portfolio Detail	Resources Portfolio Holder	Monthly
Scrutiny of treasury management strategies & performance	Resources PAG	Ongoing but with particular focus when considering annual Strategy

SOUTH BUCKS DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY & PROCEDURES – IN-HOUSE FUNDS

1. Introduction

The Council has adopted CIPFA's "Code of Practice on Treasury Management in the Public Services". One of the requirements of this code is that Treasury Systems should be fully documented so that all who are involved are clear on the procedures and on any limits that apply to their activities.

The Council is debt free and therefore is in the position that it is unlikely to have to borrow money in the short term. This Treasury Management Policy and Procedures Document is therefore restricted to lending surplus funds not borrowing.

This document, except where stated, relates to the placing of surplus cash by officers of the Council.

2. Delegation

2.1 All investment and borrowing matters are delegated to the Resources Portfolio Holder.

2.2 The Director of Resources has delegated authority to deal with the investment of surplus cash in hand.

2.3 The Director of Resources delegates the regular monitoring of investments to the Principal Accountant.

2.4 The day-to-day transactions are carried out by the Finance Officer within the terms of reference set by the Council.

2.5 The Finance Officer will establish the balances held in the Council's bank account each morning via an electronic link to the bank and ascertain what money is available for investment.

2.6 When considering the period for investment the following points shall be taken into consideration:

Future movements in cash flow
Precept Dates
Rates of interest being offered
Anticipated future trends in interest rates

Where a significant investment decision has been made written justification of the rationale behind the decision will be kept.

2.7 In order to meet any unexpected requirements for cash, part of the Council's funds must be kept on call. Generally any deposits made for a fixed period must be repayable by the next precept date. Placing of sums in excess of this period must be approved by the Principal Accountant.

2.8 In the absence of the Finance Officer the Principal Accountant is responsible for day-to-day decisions, in the absence of either of the Principal Accountants decisions fall to the Head of Finance & IT

3. Dealing Procedures

3.1 All staff involved in Treasury management must be aware of the principles set down in “Non investment product code” (NIPS code) which has replaced the London Code of Practice. To avoid over-reliance on a single broker and enhance objectivity in dealings it is good practice to spread deals amongst a range of brokers and equivalent.

3.2 The principle behind the management of the Council's cash balances is to meet all liabilities without resort to unnecessary borrowing. This means having regard to payment dates, particularly precept dates, when placing monies longer term.

3.3 The aim in managing the Council's cash balances is to ensure the availability of sufficient funds to meet the liquidity requirements of the Council. This is achieved by placing surplus cash at call or for longer periods. These decisions are made having regard to expected cash flows and the due dates of large payments e.g. precept payments.

3.4 For fixed and callable investments the approval of the Director of Resources must be obtained in writing before the investment is made. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council’s treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from market briefings made available to the authority.

4. Documentation

4.1 All deals must be documented at the time of dealing, within the money diary, within 24 hours of the deal being made.

4.2 In addition a spreadsheet must be maintained to show the amount, period, counterparty and interest rate. When any written confirmation is received it is essential that this is checked against the spreadsheet immediately with any discrepancies investigated without delay.

4.3 The spreadsheet should be tied up and balanced with the interest received shown in the general ledger on a monthly basis. A monthly summarised statement of reconciliation should be produced by the Principal Accountant.

4.4 Where significant Money Market investments are made, evidence will be kept to demonstrate that the best rate has been obtained for the Council. This could take the form of quotes from two different brokers or notes of external investment advice giving details of the current market rates and products.
This evidence will also form the written justification of why the investment decision was made.

5. Transmission Procedures

Where funds need to be transferred to the counterparty the following procedure will need to be undertaken:

i. Where payments made to counterparties can be transmitted using electronic banking the Principal Accountant or another authorised officer must approve and release the transaction.

ii. In cases where CHAPS payments are made via the bank a letter of confirmation signed in accordance with mandate instructions must be faxed to the bank by no later than 2.00 p.m. on the day of transfer.

iii. Deposits made with the Council's bank through the special interest bearing account will be made via an electronic transfer between the Council's bank accounts.

6. Limits on Decision Making

The following limits must be strictly adhered to and under no circumstances may they be exceeded:

Director of Resources	All matters delegated by the Council.
Head of Finance Principal Accountant	All matters delegated by the Director of Resources as set out in these procedure notes
Principal Accountant Finance Officer	Investment of all surplus balances within limits applicable to counter-parties, subject to the limitations set out in these procedure notes

7. Limits Applicable to Counterparties

7.1 Investment of Council funds has one overriding principle - SECURITY. With this in mind the Council have adopted the following matrix for funds may only be placed with the following institutions:

	Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	AA+ or AA-	£7 million*	
	A to A+	£1 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA or better	£2 million	Investment decision will be based on balancing yield against duration

* Members have approved a limit of £10 million for RBS whilst the bank remains substantially within State Ownership.

As part of the Council's Treasury Management Strategy 2011/12 Members agreed to add the Co-operative Bank (A-) with a limit of £1 million on the basis of the competitive rates it currently offers.

The maximum limits for institutions do not apply to the investment of short term cash.

All fixed investment decisions will require final authorisation by the Director of Resources.

Deals out of a forward date are permitted provided that they are agreed by the Director of Resources.

8. Reporting Lines and Frequency

8.1 On a monthly basis a summary statement of reconciliation will be produced by the Principal Accountant.

8.2 The Principal Accountant should produce on a monthly basis a statement comparing interest returns with the budget and a forecast for the year based upon the latest information available.

8.3 Each month the Principal Accountant will produce a spreadsheet detailing the Council's investment portfolio, including market value and credit ratings, and email it to the Resources Portfolio Holder and the Director of Resources.

8.4 On a quarterly basis the Principal Accountant will produce a report on Investment Performance for the Director of Resources to present to the Resources Portfolio Holder and his Policy Advisory Group (Pag).

8.5 An annual Treasury Management Strategy Report is to be presented by the Director of Resources to the Resources Portfolio Holder when the annual budget for the following year is considered.

8.6 An annual Investment Strategy for the year ahead is to be presented to the Resources Portfolio Holder prior to the commencement of that year.

8.7 Annually after the closure of the financial year the Director of Resources is to report to the Resources Portfolio Holder on matters regarding the previous year's activities.

9. Cash Flow

9.1 A detailed estimated and actual cash flow spreadsheet should be maintained which updates the estimated cash flow for the year to take account of actual cash movements as the year progresses. A copy of the spreadsheet should be available for audit purposes.

10. Review of Treasury Systems Document

10.1 While it is not expected that the actual procedures in this document will need to be revised very often, such aspects as limits, risk spreading and possibly data recording may require amendment. The Director of Resources is authorised to approve such amendments.

10.2 In some instances, such as where limits for counterparties need to be changed during the year, periodic supplements to this document may have to be issued. However, there should be a full review by the Director of Resources of the contents of the document annually and any amendments reported to the Resources Portfolio Holder.

SOUTH BUCKS DISTRICT COUNCIL

INVESTMENT POLICY & PROCEDURES - TMP 9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS.

The Council does not accept loans from individuals.

The Council is debt free but may from time to time borrow for short terms cash flow purposes. Any short term borrowing will be restricted to authorised institutions under the Banking Act 1987.The names of these institutions appear on a register maintained by the Financial Services Authority (FSA) and can be accessed on their website on www.fsa.gov.uk. Short-term borrowing is restricted to those institutions appearing on the Council's list of counterparties.

9.2 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS.

In the course of its Treasury activities the Council will only lend monies to or invest with those counterparties that are on its approved lending list. These will include authorised deposit takers 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)

- When a new investment is made with an authorised deposit taker or other institution appearing on the Council's approved counterparty list the bank details (sort code, account number, name etc) are checked with the APACS book and added as a template to the Council's electronic payments system (Nat West Bankline – Payments Manager).

- If the dealer finds that the information received from a broker or institution differs when checking with the APACS book he will contact the broker or institution and resolve the query.

- The authorised signatory electronically approving the payment on Payments Manager will check the bank details on the template with the information received from the broker/institution as part of the authorisation process before they release the payment into the banking system. Any discrepancy will be queried with the dealer.

- Any queries on the name of an institution will be checked to the APACS book and to the Council's source of credit ratings Fitch IBCA supplied by Sector Treasury Services.

- All transactions will be carried out electronically via Nat West Bankline Payments Manager.

9.3 PROCEEDS OF CRIME ACT 2003 (POCA)

The current responsibilities of local authorities in respect of the POCA are detailed below:

The proceeds of Crime Act 2003 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.

The question therefore arises as to whether organisations now caught under the provisions of the POCA have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore, whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer (Finance Director, Treasurer, Head of Legal) to whom suspicions must be reported and who ids responsible for deciding whether to pass the report to NCIS at the address given below:
NCIS,
PO BOX 8000,
LONDON.
SE11 5EN.

www.ncis.co.uk

The Council has appointed Jim Burness, Director of Resources, to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, if any doubts remain, these transactions will be reported to the National Criminal Investigation Service.

The Director of Resources is conversant with the requirements of the POCA 2003 and will ensure that Business Unit Heads will pick up any training requirements for relevant staff through the appraisal process.

Economic background – Detailed Assessment at September 2011

Activity indicators suggest that the economic recovery has ground to a halt. Indeed, the weighted output balance of the CIPS/Markit surveys fell in August to a level that has been consistent with contraction in the past. The surveys also exclude retail activity – and the latest news from the high street suggests that the sector is in a similar position. While sales volumes rose by 0.2% m/m in July, they fell by the same amount in August.

However, output for the first quarter was depressed by a variety of factors (including the one-off
Bank Holiday for the Royal Wedding in April and the after-effects of the Japanese earthquake), so the economy might still register growth in the second quarter.

Meanwhile, the fading of the economic recovery has impacted on the job market. The Labour Force Survey measure of employment fell by 70,000 in the three months to July, the first fall this year. And the ILO measure of unemployment rose by 80,000 over the same period – the largest rise in two years. The timelier (but narrower) claimant count measure also rose by a monthly 33,700 in July and 20,300 in August. The pace of job losses across the whole economy looks unlikely to ease off in the coming months. Job vacancies in the three months to August were 1.3% lower than a quarter ago, while the employment balances of all three of the CIPS surveys were below the 50-mark in July and August (below 50 marks a contraction in expectations).

Meanwhile, the public finances are on track to miss this year's fiscal forecasts. If the trend in borrowing seen over the first five months of the fiscal year continues, it will be around £5bn higher than the OBR expects. Admittedly, the full impact of some tax changes have yet to be felt, but the lags between developments in the economy and the public finances suggest that the recent slowdown is unlikely to have had its full effect on receipts.

Conditions in the housing market have also continued to deteriorate. Whilst the number of mortgage approvals for new house purchase rose from 48,800 in June to 52,400 in August, this has not prevented renewed falls in house prices. The Nationwide index ended the second quarter 0.2% lower than at the end of the first.

The trade in goods and services deficit was £4.5bn in July, compared to an average monthly deficit of £3.8bn in Q1. The survey measures of export orders also point to falls in exports ahead – the new export orders balance of the CIPS Manufacturing survey, for example, fell to its lowest level since May 2009 in September. At that level, it points to a quarterly drop in the volume of manufactured goods exports of around 5%.

Inflation continued to climb in the second quarter. CPI inflation rose from 4.2% in June to 4.4% in July and 4.5% in August. A series of rises in electricity and gas prices also took effect in late August and September which, together with a rise in food inflation reflecting past rises in agricultural commodity prices, could push inflation close to 5% in September.

Inflation may creep a little higher in the third quarter – but recent developments suggest that it should fall quite sharply next year. Oil prices fell from $113 per barrel at the end of Q1 to $106 at the end of Q2. Agricultural prices also fell over the past quarter. Surveys of manufacturers pricing intentions in Q2 also pointed to a fall in producer output price inflation ahead. Meanwhile, the continued weakness of the broad money supply and lending data in Q2 and the persistence of a large degree of spare capacity in the economy also suggest that inflation will fall sharply in 2012.

Measures of inflation expectations have drifted up – the Bank of England's measure of households' inflation expectations in the year ahead rose from 3.9% to 4.2% in Q2. However with conditions in the labour market continuing to deteriorate, these expectations seem unlikely to become ingrained. The annual rate of average earnings growth including bonuses fell from 3.1% to 2.9% in July (the rate excluding bonuses fell from 2.2% to 1.7%). Real pay growth has thus remained negative.

Meanwhile, the MPC became distinctly more dovish during Q2. Spencer Dale and Martin Weale both abandoned their votes for a rate hike at the meeting in August. The minutes of September's meeting also suggested that QE2 will be launched soon, although, no other members have yet joined Adam Posen in voting for more QE. Most have however accepted that the case for policy stimulus has significantly strengthened and that "a continuation of the conditions seen over the past month would probably be sufficient to justify an expansion of the asset purchase programme at a subsequent meeting."

Financial market sentiment deteriorated sharply in the second quarter, reflecting declining prospects for economic growth and renewed risk aversion as a result of the intensification of the euro-zone sovereign debt crisis. The FTSE 100 finished the quarter at 5,128 – about 14% lower than its level at the end of the first quarter. Ten year gilt yields plummeted from 3.38% to 2.43%, reflecting falling interest rate expectations, safe-haven flows as a result of a perceived rise in default risk on sovereign debt in the euro-zone and perhaps expectations that further QE might soon be on the way. Meanwhile, a global shift away from risk saw the dollar strengthen. As a result, sterling weakened against the dollar from about $1.60 to $1.56, but strengthened slightly against the euro from €1.16 to €1.10.

In the US, economic data was weak, but a little stronger than in the UK. The US ISM indices pointed to annualised quarterly GDP growth of around 1.5% in July and August. Growth in payrolls also stagnated in August. And while President Obama proposed a $450bn job creation bill, equivalent to nearly 3% of GDP, it seems unlikely to be passed by Congress in full.

Growth has also slowed sharply in the euro-zone. In particular, the ECB composite PMI now pointed to outright falls in GDP in August. A steep drop in the EC Economic Sentiment Indicator in August also left the index consistent with a sharp slowdown in annual GDP growth in the region.

Forecast for Interest Rates – September 2011

SUMMARY OUTLOOK

Sector has undertaken a review of our interest rate forecasts as a result of two major events: -

1. The decision by the MPC to expand quantitative easing over the next four months by a further £75bn which had an immediate effect of depressing gilt yields at the long end of the curve. It also clearly underlines how concerned the MPC now is about the prospects for growth of the UK economy and that recession is now decisively a much greater concern than inflation.

2. The marked deterioration of growth prospects in the US, EU and UK, especially as concerns have further increased over Greece and the potential fall out from their debt situation. This has led in turn to a further increase in safe haven flows into UK gilts since our last interest rate forecast (16.8.11) which have depressed gilt yields and PWLB rates to even lower levels.

These developments had left our short term forecasts for PWLB rates markedly out of line with actual rates. They have also substantially pushed back our expectations of the timing of the eventual start of increases in Bank Rate and the expected eventual rise in gilt yields and PWLB rates.

In summary, our concerns around a slow down in prospects for GDP growth in the western world are as follows: --

US

- Current weak GDP growth; jobless recovery
- Fed unlikely to increase central rate until mid 2013
- Latest Fed Twist operation unlikely to save US economy from weak growth in the shorter term
- Near exhaustion of major fiscal and monetary remedies
- Political gridlock ahead of Nov 2012 Presidential elections for major fiscal action
- New President unlikely to make significant impact on the US economy in 2013
- Housing market still fraught and banks face rising losses on mortgages which will lead in turn to restricted supply of credit to the economy; little hope of the housing market turning around in the near future

EU

- Sovereign debt crisis is morphing into an EU banking crisis where some weaker banks will need semi-nationalisation to cope with a major write down of Greek debt, resulting in an increase in government debt levels. This in turn could threaten (e.g.) the French AAA rating and lead to an increase in concerns for the size of the French debt to GDP ratio
- EU economy now heading into recession in 2012; increasing lack of supply of bank credit plus major fall in consumer and business confidence will inhibit economic growth

- High risk that 17 Euro zone nations will not agree on what to do about Greece ahead of financial markets losing patience and precipitating a crisis
- German elections in 2013 getting ever closer; German voters hostile to bailing out Greece and other weak peripherals

UK

- 40% of UK GDP dependent on overseas trade; high correlation of UK growth to US and EU GDP growth means that the UK economy may only barely escape recession in the next two years
- Consumers have paid down total debt to income ratio from 180% in 2008 to 160%. OBR forecasts March 2011 for GDP growth of 2.5% in 2012 and 3.0% in the following three years are predicated on an increase in consumer spending and borrowing taking that ratio back to 175% by 2015 i.e. an increase of £570bn in debt. This is highly unlikely given current consumer sentiment, job fears, high inflation eroding disposable incomes, small or no pay increases, mortgagors coming off initial cheap fixed rate deals onto higher SVR rates etc.
- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth
- Little sign of a major increase in exports to boost UK growth
- QE2 likely to be too little too late to boost UK growth significantly in the near term

CHINA

- Increasing concerns that efforts to gently slowdown the economy to cool inflation could lead into a hard landing.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank