



AGENDA

For a meeting of the

CONSTITUTION AND ACCOUNTS COMMITTEE

to be held on

WEDNESDAY, 20 SEPTEMBER 2006

at

11.00 AM

in the

**COMMITTEE ROOM 1 (CHAIRMAN'S ROOM), COUNCIL OFFICES,
ST PETER'S HILL, GRANTHAM**

Duncan Kerr, Chief Executive

Panel Members:	Councillor John Hurst, Councillor Reg Lovelock M.B.E. (Vice-Chairman), Councillor Peter Martin-Mayhew, Councillor Mrs. Linda Neal (Chairman) and Councillor John Wilks
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Committee Support Officer:	
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Members of the Committee are invited to attend the above meeting to consider the items of business listed below.

1. AUDIT REPORT ON CLOSURE OF ACCOUNTS 2005/2006

(To follow)

2. TREASURY MANAGEMENT ACTIVITY 2005/2006

(To follow)

Annual governance report

South Kesteven District Council

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Constitution and Accounts Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the likely fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9** Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30th September 2006. A draft report is attached at Appendix 5.

Use of resources

- 10** Our work on the Authority's arrangements to secure economy, efficiency and effectiveness of its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 30th September 2006. A draft report is attached at Appendix 5.

Financial statements

11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

12 Our work on the financial statements is now substantially complete.

Matters to be reported to the Audit Committee

13 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the auditor's report

14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit opinion. A draft audit report is attached at Appendix 5.

15 Whilst, subject to the above, I will be in a position to issue an unqualified audit opinion on the accounts I will not be in a position to formally certify completion of the audit until I have had chance to fully consider recent concerns about the lawfulness of one aspect the Council's pension scheme arrangements referred to paragraph 20 and 21 below, and reported to full Council on 7th September. I am satisfied that this matter will not have a material effect on the Council's accounts.

16 Once I have considered the above matter I will certify completion of the audit and re-issue the opinion on the accounts.

Uncorrected misstatements

17 Whilst our audit identified a number of mis-statements in the financial statements there were none, excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), that management decided not to adjust.

Adjusted misstatements

18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. None of the adjusted misstatements were material.

Qualitative aspects of accounting practices and financial reporting

- 19 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 20 Members will be aware that the Chief Executive has received legal advice that one aspect of the Council's current local pension arrangements is unlawful, and in certain specific circumstances that may mean that payments made under the arrangements may also be unlawful. If payments made under the scheme are unlawful it may be that in certain circumstances the Council would be able to reclaim the payments made. In reality it is likely that if any payments are reclaimable they may be significantly lower than those paid
- 21 Since the scheme was introduced the Council has made or become liable for payments of around £0.5 million under the arrangements and officers are currently assessing individual cases to ascertain the lawfulness of payments made. The accounts have been prepared on the basis that the payments made are likely to be lawful and not reclaimable. A note has been added to the accounts to this effect.

Material weaknesses in internal control identified during the audit

- 22 Our audit identified no weaknesses in the systems of accounting and financial control which we wish to draw to your attention.
- 23 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

24 Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud;
- where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
- non-compliance with legislative or regulatory requirements and related authorities.

Any other matters of governance interest

25 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 1 below.

Table 1 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	No issues to report
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	We have no issues to report on this aspect at this stage. The work will be completed in the near future.

Letter of representation

26 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

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Next steps

27 We are drawing these matters to the Audit Committee's attention so that:

- you can consider them before the financial statements are approved and certified;
- the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
- the Committee has the opportunity to amend the financial statements for any unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Use of resources

Value for money conclusion

- 28** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 29** We have completed our work in relation to the use of resources and there are no matters which we wish to draw to the attention of the Audit Committee.

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Use of auditors' statutory powers

30 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 2 below.

Table 2 Use of statutory powers

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	We have not so far issued any report under section 8 in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	We have not so far issued any s11 recommendations in respect of 2005/06.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 31** This report has been discussed and agreed with Director of Finance. A copy of the memorandum will be presented at the Audit Committee on 20th September 2006.
- 32** The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Neil Bellamy
District Auditor

20 September 2006

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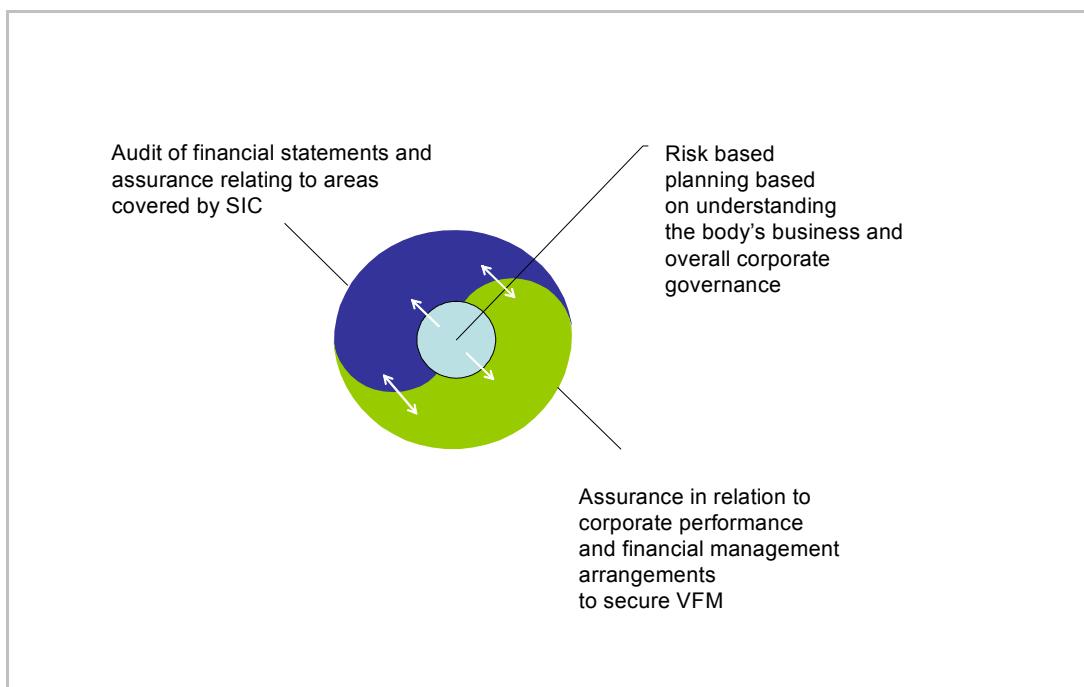
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The key risk that we identified was:
 - Producing financial statements to meet earlier deadlines, and changing technical requirements, whilst maintaining standards of working papers and levels of accuracy.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

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6 responsibilities and approach In addition to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.

7 The potential sources of assurance when reaching the value for money conclusion include:

- the Authority's whole system of internal control as reported in its statement on internal control;
- results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
- work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
- links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
- other work necessary to discharge our responsibilities.

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Appendix 2 – Audit reports issued

Table 3

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	April 05	April 05	Audit Committee
Annual governance report	Sept 06	Sept 06	Audit Committee
Opinion on financial statements	Sept 06	Sept 06	The Authority
Value for money conclusion	Sept 06	Sept 06	The Authority
Final accounts memorandum	Oct 06	To be completed	Management
Use of resources assessments	March 06	March 06	Management
BVPP report	Oct 05	Oct 05	The Authority

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Appendix 3 – Fee information

Table 4

Fee estimate	Plan 2005/06	Likely actual 2005/06
Audit		
Accounts*	£60,830	£60,830
Use of resources*	£22,230	£22,230
Total audit fees**	£83,060	£83,060
Voluntary improvement work*	nil	nil

* Report reasons for any significant variances

** The outcome on inspection and grant certification fees will be reported in the Relationship Manager Letter

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Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

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Appendix 5 – Independent auditor's report to South Kesteven District Council

Opinion on the financial statements

I have audited the financial statements of South Kesteven District Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to South Kesteven District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

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I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

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Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Neil Bellamy

District Auditor

September 2006

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me/us to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my/our attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, South Kesteven District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

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Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 in October 2005. I did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed our consideration of matters relating to the lawfulness of pension payments made under the Council's local early retirement scheme as reported to Council on September 7th. I am satisfied that these matters do not have a material effect on the financial statements

Neil Bellamy
District Auditor
September 2006

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Appendix 6 – Letter of representation

Neil Bellamy
Audit Commission
Witham House
Canwick Road
Lincoln
LN5 8HE

Dear Mr Bellamy

South Kesteven District Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of South Kesteven District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

As far as I am aware there are no further cases of early retirement payments made under the Council's local scheme over and above those already provided to you.

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Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council, other than concerns about the legality of certain aspects of the Council's pension scheme which you have already been made aware of.

Annual governance report | Appendix 6 – Letter of representation Appendix 6 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity Appendix 2 – Audit reports issued Appendix 2 – Audit reports issued Appendix 1 – Audit responsibilities and approach Appendix 1 – Audit responsibilities and approach Appendix 1 – Audit responsibilities and approach Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 5 – Independent auditor's report to South Kesteven District Council Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity Appendix 2 – Audit reports issued Appendix 1 – Audit responsibilities and approach **27**

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Members of the council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements, other than the concerns which have arisen about certain aspects of the Council's pension scheme, of which you have already been made aware.

Signed on behalf of South Kesteven District Council

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Sally Marshall
Corporate Head of Finance and Resources
20 September 2006.

REPORT TO CONSTITUTION AND ACCOUNTS COMMITTEE

REPORT OF: CORPORATE HEAD FINANCE & RESOURCES

REPORT NO.: CHFR19

DATE: 15th September 2006

TITLE:	TREASURY MANAGEMENT ACTIVITY 2005/2006
FORWARD PLAN ITEM:	Not applicable
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Monitoring Report

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	CORPORATE GOVERNANCE RESOURCES PORTFOLIO HOLDER CLLR T BRYANT	
CORPORATE PRIORITY:	CORPORATE HEALTH	
CRIME AND DISORDER IMPLICATIONS:	NONE	
FREEDOM OF INFORMATION ACT IMPLICATIONS:	This report is available via the Local Democracy link on the Council's website www.southkesteven.gov.uk	
INITIAL EQUALITY IMPACT ASSESSMENT	Carried out and appended to report? Not Applicable	Full impact assessment required? No
BACKGROUND PAPERS:	FIN240 26 JULY 2005	

INTRODUCTION

1. Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Chartered Institute of Public Finance and Accountancy (CIPFA) issue a Code of Practice on Treasury Management which is designed to ensure that responsibilities are clearly understood and that reporting mechanisms are in place to provide evidence of prudential management.
2. South Kesteven's borrowing and investment strategies are managed. One officer is identified as the manager of the Council's treasury activity, and guidelines set the operational boundaries the office can work within. All strategic decisions are made by the Corporate Head Finance and Resources as Chief Finance Officer. All day to day decisions are reviewed by the Financial Services Manager.
3. The Council's Treasury Management Policy is in line with the revised CIPFA Code of Practice. A copy of our updated policy is attached.

RECOMMENDATION

The Constitution and Accounts committee are recommended to note the annual report on Treasury Management Activity for 2005/6.

DETAILS OF REPORT

Borrowing and Investment Activity 2005/2006

4. The Council, as a tax collecting authority, sees significant switches in cash flow depending upon collection and payment profiles. This requires, on occasions, participation both as a lender and borrower in short term loans and investments.
5. All loans associated with the long term tenancy of the Council's assets have been obtained from the Public Works Loan Board. There have been meant fewer re-financing transactions in recent years, in line with the Council's historic desire to aim for debt free status.
6. Financial reserves are held by the Council to fulfil long term capital objectives. These reserves are invested in managed cash funds which are operated by Tradition (UK) Ltd and Sterling International Brokers Ltd.

Interest Rates

7. During 2005/06 the bank base rate was reduced by ¼% to 4.5%. It is currently 4.75% with the Council experiencing short term investment rates of 4.8% and long term rates of 5.09%.

Activity

8. In 2005/06 short term fixed deposits were made on 40 separate occasions for amounts of £250,000 to £5 million with £1.25 million of deposits being lent out as at 31 March 2006. Deposits are restricted to National Westminster Bank, Treasury Reserve, HBOS, Alliance and Leicester, and the Principality Building Society. There were no short term borrowing transaction.

9. During the year 45 deposits and 56 withdrawals were made on the NatWest SIBA account, where funds for immediate access are placed. This account pays interest of 4% on balances of up to 1.5m and 4.5% thereafter.
10. No long term loans were required in 2005/06. £1.5 million was repaid on maturity. £5.5 million of long term debt remains outstanding at 31 March 2006, all of which is with the Public Works Loan Board.
11. During the year an additional £1 m was placed into the managed cash funds, which at 31 March 2006, stood at £28 million. The net returns on the investment were 4.95% on Tradition and 4.91% on Sterling. The Council continued to be a net-investor in 2005/06.

Policy Objectives 2006/07

12. During 2004/05, a review of Treasury Management objectives was undertaken, as part of the medium term financial planning and budget process. This involved an assessment of the capital programme requirements and review of the debt free status objectives, with the aims of ensuring Treasury Management is best used to facilitate the Council's overall objectives. This forms part of the Budget Book, covering the requirements of the Prudential Code for Borrowing. In all future decisions on borrowing the revenue consequences of the activity will be the most important aspect. Consideration of the Capital Programme for 2006/07 will include assessing any Treasury Management decisions required. A future review of the Council's Treasury Management strategy is planned, following the receipt of advice from the Council's retained Treasury Management specialists, Butlers.

COMMENTS OF SECTION 151 OFFICER

My comments are contained within the report.

COMMENTS OF MONITORING OFFICER

COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

CONCLUSION

The Constitution and Accounts committee are recommended to note the annual report on Treasury Management Activity for 2005/6.

S Marshall

Corporate Head Finance and Resources

s_marshall@southkesteven.gov.uk

telephone (01476) 406511

SCHEDULE 1

Authorised Officers

1. The Chief Finance Officer is responsible for setting the overall parameters for loans and investment dealings.

The named offices are currently (as at 15th September 2006):

Chief Finance Officer Authorisation:	S Marshall
	I Yates
	R Wyles

Loans Officer Authorisation: P Chadwick

P Chadwick
C Barnes
C Wyatt

2. All dealings to be carried out on standard documentation and procedures agreed with Internal Audit.

SCHEDULE 2

Debt Maturity Analysis Public Works Loan Board

<u>Maturing Within</u>	<u>At 31.3.2006</u>	<u>Average Rate</u>
	£	%
1 Year	1,000,000	4.875
1 - 2 Years	1,500,000	8.875
2 - 3 Years	0	0.000
3 - 4 Years	0	0.000
4 - 5 Years	1,500,00	10.417
5 - 6 Years	0	0.000
6 - 10 Years	1,500,000	10.583
10 - 15 Years	<u>1,000,000</u>	<u>9.063</u>
Total (11 Loans)	<u>5,500,000</u>	<u>9.068</u>

Investment Maturity Analysis

Schedule of Managed Cash Funds

<u>Repayment Within</u>	<u>At 31.3.2006</u>	<u>Average Rate</u>
	£	%

Tradition (UK) Ltd

1 Year	7,000,000	4.63
1 - 2 Years	6,000,000	5.00

Sterling International Brokers Ltd

1 Year	10,000,000	4.64
1 - 2 Years	3,000,000	4.71
2 - 3 Years	1,000,000	5.45
3 - 4 Years	<u>1,000,000</u>	<u>4.71938</u>
Total (21 Loans)	<u>28,000,000</u>	<u>4.85800</u>

SOUTH KESTEVEN DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY

It is important that South Kesteven District Council follows best practice with regard to Treasury Management Activity. Best practice is covered in the appropriate Codes of Practice and accordingly the following clauses encompass the necessary coverage of financial regulations and standing orders.

1. The District Council adopts the key recommendations of CIPFA's Treasury Management in the Public Sector: Code of Practice (the Code), as described in that code.
2. Accordingly, the Council will create and maintain, as the cornerstone for effective treasury management:

A treasury management policy statement, stating the policies and objectives of its treasury management activities.

Suitable treasury management practices (TMP's), 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. The contents of the TMP's will contain recommendations from the Code, in so far as their relevance to the circumstances of this council.

3. The Constitutional and Accounts Committee and the Executive 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, and an annual report after its close, in the form prescribed in its TMPs.
4. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs and if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

SOUTH KESTEVEN DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY

It is important to define the policies and objectives of South Kesteven's treasury management activities. These are defined as:

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

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

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is committed to achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

SOUTH KESTEVEN DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY STATEMENTS

The following policy statements have been prepared in support of the Treasury Management Practice.

TMP1 Risk Management

TMP2 Best Value and Performance Measurement

TMP3 Decision-making and Analysis

TMP4 Approved Instruments, Methods and Techniques

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

TMP6 Reporting and Management Requirements

TMP7 Budgeting, Accounting and Audit Arrangements

TMP8 Cash and Cash Flow Management

TMP9 Money Laundering

TMP10 Staff Training and Publications

TMP11 Use of External Service Providers

TMP12 Corporate Governance

SOUTH KESTEVEN DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY (TMP) STATEMENTS

TMP1 Risk Management

General Statement

The S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule of this document.

(1) Liquidity Risk Management

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

(2) Interest Rate Risk Management

(3) Exchange Rate Risk Management

(4) Inflation Risk Management

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

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

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the organisation as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining

a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

(5) Credit and Counterparty Risk Management

This organisation regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of these organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(6) Refinancing Risk Management

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

(7) Legal and Regulatory Risk Management

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(5) Credit and Counterparty Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

(8) Fraud, Error and Corruption, and Contingency Management

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

(9) Market Risk Management

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

TMP2 Best Value and Performance Measurement

This organisation is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule of this document.

TMP3 Decision-making and Analysis

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule of this document.

TMP4 Approved Instruments, Methods and Techniques

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the

schedule to this document, and within the limits and parameters defined in TMP1 Risk Management.

[TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements](#)

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

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The present arrangements are detailed in the schedule to this document.

The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

[TMP6 Reporting Requirements and Management Information Arrangements](#)

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting

from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Constitutional and Accounts Committee will receive:

An annual report on the strategy and plan to be pursued in the coming year
An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

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

TMP7 Budgeting, Accounting and Audit Arrangements

The S151 Officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP2 Best Value and Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques. The form which this organisation's budget will take is set out in the schedule to this document. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this organisation's accounts is set out in the schedule to this document.

This organisation will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) Liquidity Risk Management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule of this document.

TMP9 Money Laundering

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule of this document.

TMP10 Staff Training and Qualifications

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

TMP11 Use of External Service Providers

This organisation recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

TMP12 Corporate Governance

This organisation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements details in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT
SCHEDULES TO POLICY STATEMENTS

Schedule

- 1 - Interest Rates and Risk Management
- 2 - Debt and Investment Profile
- 3 - Authorised Officers
- 4 - Best Value and Performance Management
- 5 - Decision Making and Analysis
- 6 - Approved Instruments, Methods and Techniques
- 7 - Segregation of Duties
- 8 - Reporting Requirements and Management Information Arrangements
- 9 - Budgeting, Accounting and Audit Arrangements
- 10 - Cash and Cash Flow Management
- 11 - Money Laundering
- 12 - Staff Training and Qualifications
- 13 - Use of External Service Providers
- 14 - Corporate Governance

TREASURY MANAGEMENT

SCHEDULE 1 - INTEREST RATES AND RISK MANAGEMENT

Interest Rates

1. Loan rates with PWLB are fixed.
2. Balance of fixed and variable rates set within Budget Resolution.
3. The overall borrowing limit is fixed at £30m of which
 - (i) a maximum of £6m may be classified as short term, and
 - (ii) a maximum of £8m be subject to interest rates, variable by reference to external factors.
4. Limited borrowing from sources other than PWLB is allowed to give more flexibility on borrowing options.

Exchange Rate

1. No transactions on Treasury Management are subject to exchange rate fluctuation.

Inflation

1. At present time inflation interest rate calculation is carried out on annual basis as part of budget setting. Cash investments can be invested for periods of greater than 364 days. 75% of the Council's investments will remain for a maximum of 364 days to limit inflation exposure.
2. No financial derivatives are currently used for inflation risk management.

Credit and Counterparty Policies

1. In creating a list for counterparty lists, we use the advice of the investment companies - Sterling and Tradition. The lists are maintained and kept up to date by the Loans Officer. The criteria are high levels of credit rating as measured by Fitch the independent International Bank Credit Agency .

The relevant lists are attached to this schedule.

Risk Avoidance Measures

General

1. Restricted list of deposit takers.
2. Bar upon foreign currency exposure.

Tradition and Sterling Investments

1. All investments restricted to sterling denominated instruments.
2. Investments made with local authorities and banks and building societies on the approved list.
3. Amount invested with any one institution or group should not exceed 25% of the fund value or a maximum of £8m for periods of more than one month.
4. Investments for periods exceeding 364 days limited to 25% of fund held.
5. Forward commitment investments limited to 25% of fund held.
6. Portfolio management will be measured against the return provided by the 3 months sterling LIBID.

Loans Officer

1. Amounts invested with any one institution or group should not exceed £7m for periods of more than one month.

THE ENGLISH AND SCOTTISH CLEARING BANKS AND THEIR SUBSIDIARIES

ROYAL BANK OF SCOTLAND

Ulster Bank
Ulster Bank Ireland
Adam & Co

BARCLAYS BANK

HSBC

HBOS

Bank of Scotland (Ireland) Ltd

LLOYDS TSB GROUP

Lloyds Bank
TSB Bank Scotland

OTHER UK BANKS

Abbey National
Alliance & Leicester
Bradford & Bingley
Halifax
Northern Rock

OVERSEAS BANKS

The placing of funds with overseas banks is restricted to institutions with a credit rating of F1+ (short term loans) and AA (long term loans). These ratings are published by Fitch IBCA.

LOCAL AUTHORITIES

TOP 30 BUILDING SOCIETIES

Nationwide
Britannia
Portman
Yorkshire
Coventry
Chelsea
Skipton
Leeds
West Bromwich
Derbyshire
Cheshire
The Principality
Newcastle
Norwich & Peterborough
Stroud & Swindon
Nottingham
Dunfermline
Scarborough
Kent Reliance
Progressive
Lambeth
Cumberland
National Counties
Furness
Cambridge
Saffron Walden Herts & Essex
Leek United
Hinckley & Rugby
Universal
Manchester

Limit of 25% of fund value per institution

SCHEDULE 2

Debt Maturity Analysis Public Works Loan Board

<u>Maturing Within</u>	<u>At 31.03.2006</u>	<u>Average Rate</u>
	£	%
1 Year	1,000,000	4.875
1 - 2 Years	1,500,000	8.875
2 - 3 Years	0	0.000
3 - 4 Years	0	0.000
4 - 5 Years	1,500,000	10.417
5 - 6 Years	0	0.000
6 - 10 Years	1,500,000	10.583
10 - 15 Years	<u>1,000,000</u>	<u>9.063</u>
Total (11 Loans)	<u>5,500,000</u>	<u>9.068</u>

Investment Maturity Analysis

Schedule of Management Cash Funds

<u>Repayment Within</u>	<u>At 31.3.2006</u>	<u>Average Rate</u>
	£	%
<u>Tradition (UK) Ltd</u>		
1 Year	7,000,000	4.63
1 - 2 Years	6,000,000	5.00

Sterling International Brokers Ltd

1 Year	10,000,000	4.64
1 - 2 Years	3,000,000	4.71
2 - 3 Years	1,000,000	5.45
3 - 4 Years	<u>1,000,000</u>	<u>4.719</u>
Total (21 Loans)	28,000,000	4.858

SCHEDULE 3

Authorised Officers

1. The Chief Finance Officer is responsible for setting the overall parameters for loans and investment dealings.

The named officers are currently:

Chief Finance Officer Authorisation: S Marshall
R Wyles
I Yates

Loans Officer Authorisation: P Chadwick
C Barnes
C Wyatt

2. All dealings to be carried out on standard documentation and procedures agreed with Internal Audit.

SCHEDULE 4

In support of TMP2 - Best Value and Performance Management

The Best Value Performance plan lays out the Authority's approach to best value reviews. Treasury Management falls within the Financial Services work area; for the purposes of this schedule the two areas of activity that attract most attention:

- (i) Banking Contract: tested every 4 years
- (ii) Cash/Fund Management Service: reviewed every 5 years.

The services are reviewed either by market testing or benchmarking. With regard to (ii) above, if fund managers were failing to make returns against targets, monies would be re-allocated to other funds.

The Council is currently in the process of employing consultants to undertake a complete review on the council financial position to ensure best use is put to the Council's resources.

SCHEDULE 5

In support of TMP3 - Decision Making and Analysis

The Loans Officer keeps a written record of all Treasury Management activity - this is contained in the 'Red' Book.

A set of procedure notes exist to ensure all proper practices are followed. Treasury Management is audited by the Council's internal auditors on an annual basis.

SCHEDULE 6

In support of TMP4 - Approved Instruments, Methods and Techniques
Detail of instruments and limitations on use are detailed in Interest Rates and Risk Management.

SCHEDULE 7

In support of TMP5 - Segregation of Duties

The Council has delegated the decision making on Treasury Management to the Corporate head Finance and Resources - the Chief Finance Officer. The three officers that can make Treasury Management decisions are S Marshall, R Wyles and I Yates . The officers that can deal in the capacity of Loans

Officer are P Chadwick, C Barnes and C Wyatt. This is sufficient for absence cover. The procedural guidance explains the limits on dealings and with whom, and by what means.

SCHEDULE 8

In support of TMP6 - Reporting Requirements and Management Information Arrangements.

1. The annual budget includes estimates for the interest on borrowings and interest earned. These estimates are prepared on an annual basis taking account of the economic and market analysis. The knowledge of our own debit profile is useful in determining the likely position.
2. If the strategy or policy needs changing this will be reported to the Cabinet in good time for the relevant financial year.
3. Following the end of each financial year a further report will be produced on performance of the Treasury Management function for that financial year.
4. Any variances to the agreed policies will be reported to the Cabinet.

SCHEDULE 9

In support of TMP7, Budgeting, Accounting and Audit Arrangements.

1. South Kesteven will use the CIPFA classification of costs for accounting for Treasury Management. This includes accounting for manpower, interest receipts, interest charges, bank charges, brokerage and commissions and any other relevant charges.
2. The Treasury Management function is annually reviewed by the Council's internal auditors to check internal controls and operating practice.
3. The External Auditors (the District Auditors) check any relevant Treasury Management activity as part of their annual audit of the accounts.

SCHEDULE 10

In support of TMP 8 - Cash and Cash Flow Management.

1. The Loans Officer regularly performs a basic cash flow calculation to ensure best use of available funds. This is supported by the Financial Accountant Team Leader on a six monthly basis to ensure all prior activity is included within the cash flow forecast.

SCHEDULE 11

In support of TMP 9 - Money Laundering.

1. The restricted use of counterparties and careful record keeping should ensure this is avoided.

SCHEDULE 12

In support of TMP 10 - Staff Training and Qualifications.

1. Any member of staff dealing with Treasury Management activity is entitled to suitable training. The officers authorising the transactions are qualified via a recognized accounting body.

SCHEDULE 13

In support of TMP 11 - Use of External Service Providers.

The Council is currently seeking the services of external providers. This process will be fully documented.

Where external investment managers are being used (Tradition and Sterling) all dealings are documented, and arrangements covered in the agreement with each manager.

SCHEDULE 14

In support of TMP 12 - Corporate Governance.

The adoption of the Treasury Management Policy and associated statements make a major contribution to Corporate Governance.