

## **CABINET – 13TH SEPTEMBER 2018**

### **Report of the Strategic Director of Corporate Services**

**Lead Member: Councillor Tom Barkley**

#### **ITEM 13 UPDATED TREASURY MANAGEMENT PRACTICES**

##### Purpose of Report

To bring forward the revised Treasury Management Practices for consideration by Cabinet.

##### Recommendations

1. That the revised Treasury Management Practices, attached as an Appendix, be approved.
2. That delegated authority be given to the s151 Officer to make future amendments to the Treasury Management Practices document in line with changes agreed in the Treasury Management Strategy which is approved annually by Council.

##### Reasons

- 1&2. To ensure that the Council's Treasury Management Practices reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

##### Policy Justification and Previous Decisions

Amendments to Treasury Management Practices require approval by Cabinet. The document has been amended and updated to take account of changes resulting from 2017 Treasury Management and Prudential Codes and Ministry of Housing Communities and Local Government (MHCLG) guidance for investments and Minimum Revenue Provision (MRP). Changes have been made to take into account the implementation of Markets in Financial Instruments Directive (MIIFID) II requirements where the Council has opted up to professional investor status, minor process changes discussed with internal audit to bring these up-to-date with new technology and the inclusion of a capital strategy as part of the documents which will be available for public inspection from 2019/20 onwards. Changes to the Code and to investments included in this document have previously been approved by full Council as part of the Treasury Management and Annual Investment Strategy.

Additionally where sections are likely to change annually as part of the Treasury Management and Investment Strategy document which goes to full Council for approval in February each year, readers have been provided with the most current information at the time of writing this document and have been signposted to the Strategy for the most up-to-date information at that time. This removes the need to

update the practice document for changes that have already been approved as part of the strategy.

### Report Implications

The following implications have been identified for this report.

#### *Financial Implications*

There are no direct financial implications arising from this report.

#### *Risk Management*

There are no direct risks associated with the decision Cabinet is asked to make in respect of this report which is updating the practice statement in line with the current prudential code. The investment decisions and associated risks are considered annually as part of the strategy document approved by full Council.

Key Decision:	No
Background Papers:	None
Officer to contact:	Clare Hodgson Head of Finance and Property Services 01509 634810 <a href="mailto:clare.hodgson@charnwood.gov.uk">clare.hodgson@charnwood.gov.uk</a>

Appendix – Treasury Management Practices Document



**CHARNWOOD BOROUGH  
COUNCIL**

**TREASURY MANAGEMENT  
PRACTICES**

**Revised at: 24 August 2018**

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# TMP1 Risk Management

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The S.151 Officer, currently the Director of Corporate Services, 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 Council'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 to this document.

## 1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or revenue resources.

This Council regards a key 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 which 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 those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### 1.1.1 Policy on the use of credit risk analysis techniques

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. As at the date of this document the Council will use counterparties within the following durational bands:

- Dark pink      5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink     5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple           2 years
- Blue            1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange         1 year
- Red             6 months

- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings. The most recent creditworthiness information will be included in the Council's Treasury Management and Annual Investment Strategy – please refer to this document for an up-to-date list.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored at least weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

The S.151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

Credit ratings for individual counterparties can change at any time. The Head of Finance & Property Services (HOF) is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

**Country limits** - The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of the current Treasury Management Strategy are;

## AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

## AA+

- Finland
- Hong Kong
- U.S.A.

## AA

- Abu Dhabi (UAE)
- France
- U.K.

## AA-

- Belgium
- Qatar

This list will be amended by officers should ratings change in accordance with this policy. The most up-to-date list will be included annually as an appendix to the Treasury Management and Annual Investment Strategy statement – please see this document for the current list.

The Council currently only deals in what are termed specified investments and a list of these is set out in schedule 1 at the end of TMP 1. Should the Council appoint external fund manager(s) then they will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however it is understood that the fund manager(s) may use a subset of the counterparty list so derived. In addition, they would be allowed to invest in non-specified investments based on their own counterparty procedures and knowledge and experience. Parameters for such non-specified investments would be agreed at the time with the manager(s) by the S.151 Officer.

## 1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

The Council 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. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### **1.2.1. Amounts of approved minimum cash balances and short-term investments**

The Treasury Team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

### **1.2.2. Details of:**

#### **1.2.2.1 Standby facilities**

The Council's aim is to minimise any surplus balances each day and surplus funds are invested each day or monies brought back to cover expected payments.

#### **1.2.2.2 Bank overdraft arrangements**

The Council does not currently have an overdraft facility and this policy is reviewed on a regular basis.

#### **1.2.2.3 Short-term borrowing facilities**

The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £10m.

#### **1.2.2.4 Insurance/guarantee facilities**

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

### **1.3 Interest Rate Risk Management**

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council 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 achieve this 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. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

#### **1.3.1 Details of current approved interest rate exposure limits:**

<b>Interest rate exposures</b>	
	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%
Limits on variable interest rates based on net debt	90%

#### **1.3.2 Trigger points and other guidelines for managing changes to interest rate levels**

All but one of the Council's current borrowings are at fixed rates and therefore there are no formal trigger points. The one variable borrowing is at an interest rate that is unlikely to change in the near future and this position is monitored periodically.



**1.3.3** Current upper limits for fixed interest rate exposure are:

<b>Maturity structure of fixed interest rate borrowing</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	5%
12 months to 2 years	0%	10%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	45%
20 years to 30 years	0%	50%
30 years to 40 years	0%	15%
40 years and above	0%	20%

**1.3.4** Current upper limits for variable interest rate exposure are:

<b>Maturity structure of variable interest rate borrowing</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	5%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	40%
10 years and above	0%	100%

**1.3.5 Policies concerning the use of instruments for interest rate management.**

**1.3.5.1** Forward dealing

Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than two weeks forward then the approval of the S.151 Officer is required.

**1.3.5.2** Callable deposits

The Council will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified Investments appended to the AIS.

**1.3.5.3** LOBOS (borrowing under lender's option/borrower's option)

Use of LOBOs is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by S.151 Officer.

**1.4 Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council only lends/borrows in sterling therefore there is no exchange rate risk.

**1.5 Refinancing Risk Management**

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancing, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council 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 Council 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 over reliance on any one source of funding if this might jeopardise achievement of the above.

#### **1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and/or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Audit Committee at the half yearly or annual review meeting immediately following its action.

#### **1.5.2. Projected Capital Investment Requirements**

The S.151 Officer will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges. In addition, from April 2019 the s151 Officer will draw up a capital strategy report which will give a longer term view.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

#### **1.5.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72) and other long term liabilities (73).

#### **1.5.4. PFI, Partnerships, ALMOs and guarantees**

The Council currently has no such arrangements.

## 1.6 Legal and Regulatory Risk Management

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

The Council 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[1] 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 Council, particularly with regard to duty of care and fees charged.

This Council 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 Council.

### 1.6.1 References to Relevant Statutes and Regulations

- **Statutes**
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 [The Local Authorities \(Capital Finance and Accounting\) \(Amendment\) \(England\) \(No. 2\) Regulations 2004](#)
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011

- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) \(No. 4\) Regulations 2012](#)
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016

### ***Guidance and codes of practice***

- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners 2014 Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- MHCLG Revised Guidance on Investments Feb 2017
- MHCLG guidance on minimum revenue provision – Feb 2017
  
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
  
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. (was formerly known as the
- Financial Conduct Authority's Code of Market Conduct
  
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

### **1.6.2 Procedures for Evidencing the Council's Powers/Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

- Investing: Local Government Act 2003, section 12
- Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the scheme of delegation of treasury management activities which is contained in this document which states which officers carry out these duties. Which officers act as authorised signatories varies depending on the requirements of the particular investment or borrowing and, for security reasons these would not be released.

Required Information on Counterparties:

Lending shall only be made to counterparties on the Approved Counterparty List. This list has been compiled using advice from the Council's treasury advisers and other sources as explained above.

### **1.6.3 Statement on the Council's Political Risks and Management of Same**

The S.151 Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.6.4 Monitoring Officer**

Currently the monitoring officer is the Head of Strategic Support and the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.6.5. Chief Financial Officer**

The Chief Financial Officer is currently the Director of Corporate Services and S.151 Officer and the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

## **1.7 Fraud, Error and Corruption, and Contingency Management**

The risk that a Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council 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.

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

### **1.7.1. Details of Systems and Procedures to be followed, including Internet Services**

#### **Authority**

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the S.151 Officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

#### **Procedures**

- The Council currently uses HSBCNet for its electronic banking and this is a proprietary system owned and operated by the Council's main bank, HSBC Plc. All transactions require a division of duties with appropriate levels of staff compiling the transfer and senior staff then approve the transfer. CHAPS payments operate in a similar manner.

#### **Investment and borrowing transactions**

- A detailed register of all loans and investments is maintained electronically in the Income section which covers treasury matters.
- A written acknowledgement of each fixed term deal is sent promptly to the lending or borrowing institution where transactions are done directly with the Council.
- Variable length investments are verified shortly after the deal or on a monthly statement basis.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Senior Income Officer and lender/borrower for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Senior Income Officer and broker for resolution.
- Contract notes for transactions carried out by any external fund manager(s) are retained by the fund manager(s) and reported on monthly.

#### **Regularity and security**

- Lending is only made to institutions on the Approved Counterparty List.
- A diary system is used to prompt the Treasury Team that money borrowed/lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the Treasury Team between dealers and the checking and authorization of all deals.
- No dealer in the Treasury Team is an authorised signatory.
- Payments, where required, can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the S.151 Officer.
- The HSBCNet system can only be accessed by pin numbers and other security measures.

- There is adequate insurance cover for employees involved in loans management and accounting.
- When applicable, capital and interest withdrawals and capital injections in respect of monies managed by external fund managers can only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).

### **Checks**

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The electronic system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.
- A debt charge/investment income listing is produced every quarter and year end/other when a review is undertaken against the budget for interest earnings and debt costs.
- When applicable, the valuations and investment income statements received monthly from the Council's fund managers will be checked and retained for audit inspection. The authority will ensure that the external funds we invest in are accounted for in accordance with proper accounting practices.
- If we use external fund managers again, then we will comply with the requirements of the Code of Practice on Local Authority Accounting and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

## Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Treasury Team.
- Interest and expense rates are used to calculate the principal, interest and debt management expense charges to the Income & Expenditure Statement and the Housing Revenue Account.

### 1.7.2 Emergency and Contingency Planning Arrangements – Disaster Recovery Plan

The Treasury Team, which comprises members of the Income, Accountancy and Procurement sections of the Finance service, is subject to the Council's main Disaster Recovery Procedures and in addition a manual record of Treasury dealings is maintained. In the event of electronic systems not being available transactions could be carried out by telephone with fax confirmations.

All members of the Treasury Team are familiar with this plan and new members will be briefed on it. All computer systems are backed up on the server to enable files to be accessed from remote sites.

### 1.7.3 Insurance Cover Details

#### Fidelity Insurance

The Council has 'Fidelity' insurance cover with Travelers Insurance Company Limited. This covers the loss of cash by fraud or dishonesty of employees. This cover is limited to £4m for any one event with a nil excess for any one event.

#### Business Interruption

The Council also has 'Business Interruption' cover as part of its property insurance with Travelers Insurance Company Limited.

### 1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Council 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.

#### 1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy. The Council does not currently invest directly in such instruments.



## TMP 1 SCHEDULE 1 – SPECIFIED AND NON-SPECIFIED INVESTMENTS

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£7m any one institution and £18m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£7m any one institution and £18m in total	Liquid
Local authorities	N/A	£5m any one institution and £6m in total	24 months
Property Funds	N/A	£5m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	Up to 12 months
	Orange	£8m any one institution and £20m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £40m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	Up to 100 days
	No Colour	Nil	Not for use

**Non Specified Investments:** In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. It is anticipated that investments will be made in these funds during 2018. These investments will still form part of the £11m limit for investments of over 365 days duration, which is felt to be affordable within the Councils available reserves and balances.

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

The information above is correct as at 2018/19. Specified and non-specified investment categories and limits are reviewed annually and the most up-to-date list is included in the Treasury Management and Annual Investment Strategy document. Please refer to this for current information.

# TMP 2 PERFORMANCE MEASUREMENT

## 2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions:

- a) quarterly reviews carried out by the Treasury Team
- b) reviews with our treasury management consultants
- c) annual review after the end of the year as reported to the Audit Committee

### 2.1.1 Periodic reviews during the financial year

The HOF reviews actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include:

- a) Total debt including average rate and maturity profile
- b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

### 2.1.2 Reviews with our treasury management consultants

Members of the Treasury Team hold reviews with our consultants at least every 12 months to review the performance of the investment and debt portfolios.

### 2.1.3 Review reports on treasury management

An Annual Treasury Report is submitted to the Audit Committee each year after the close of the financial year which reviews the performance of the debt/investment portfolios. This report contains the following: -

- a) total debt and investments at the beginning and close of the financial year and average interest rates
- b) borrowing strategy for the year compared to actual strategy
- c) investment strategy for the year compared to actual strategy
- d) explanations for variance between original strategies and actual
- e) debt rescheduling done in the year
- f) actual borrowing and investment rates available through the year
- g) comparison of return on investments to the investment benchmark
- h) compliance with Prudential and Treasury Indicators
- i) other

### 2.1.4 Comparative reviews

Due to the size of the Treasury function comparative reviews are not currently undertaken. The Council are however members of a benchmarking group with other local authorities and regularly review returns against those of other group members.

## 2.2 Benchmarks and Calculation Methodology:

### 2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt in previous financial year
- Average period to maturity of external debt
- Average period to maturity in previous year

### 2.2.2 Investment.

The performance of investment earnings will be measured against the following benchmarks: -

- a) 3 month LIBID compounded quarterly

b) Cash fund manager(s) – if and when these are used suitable benchmarks will be agreed.

## **2.3 Policy Concerning Methods for Testing Value for money in Treasury Management**

### **2.3.1 Frequency and processes for tendering**

Tenders are normally awarded on a 3 year basis with the option to extend for 2 years. The process for advertising and awarding contracts will be in line with the Council's Contract Procedure Rules.

### **2.3.2 Banking services**

The Council's banking arrangements are to subject to competitive tender normally every 3 years and the current contact has an option to extend for up to a maximum of a further two years. Should it be considered that reductions in the volume of transactions in the foreseeable future are such that renders a tender inappropriate, a specialist banking review company will be appointed to ensure that the terms offered represent value for money.

### **2.3.3 Money-broking services**

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services.

### **2.3.4 Consultants'/advisers' services**

The Council's policy is to appoint full-time professional treasury consultants and, if necessary, leasing advisory consultants.

### **2.3.5 Policy on External Managers**

The Council's policy is that it may appoint full-time professional cash/external investment fund managers to manage a proportion of its cash and, if so, will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

The delegation of investment management to external managers would entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of any fund managers. The Council has appointed Treasury solutions to assist in this respect.

## **TMP 3 DECISION-MAKING AND ANALYSIS**

### **3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:**

#### **3.1.1 Records to be kept**

The Treasury section has a computerised in-house spreadsheet system in which all investment and loan transactions are recorded. Full details of the system are covered in the user manual. The following records will be retained either electronically or manually as appropriate: -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Fund manager(s) valuation statements

#### **3.1.2 Processes to be pursued**

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management, investment returns, etc).

#### **3.1.3 Issues to be addressed.**

##### **3.1.3.1. In respect of every treasury management decision made the Council will:**

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed;
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping;
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

##### **3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

- a) Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets;
- b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**3.1.3.3 In respect of investment decisions, the Council will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

## TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

### 4.1 Approved Activities of the Treasury Management Operation:

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than the Pension Fund);
- leasing.

### 4.2 Approved Instruments for Investments:

Please see the Annual Investment Strategy.

#### 4.2.2 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies have been defaulted to “retail” status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to “professional” status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for and date received.

A separate file is maintained for confirmations that there is an exemption from having to opt up to professional status for a regulated investment, (e.g. to use a money market fund which will deal with retail clients). These files cross reference to the schedules below. *(Alternatively, clients may wish to consider whether one listing and file by counterparty name, and then instrument, may be preferable for ease of working by the treasury management team.)*

## SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS AND FOR EXEMPTIONS FROM OPTING UP

The list of institutions (including banks and money market funds) for which the Council has opted up to professional status and those for which the Council has exemptions from opting up are available on request from the HOF.

### 4.3 Approved Techniques:

- Forward dealing;
- LOBOs – lenders option, borrower’s option borrowing instrument;
- The use of structured products such as callable deposits.

### 4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Municipal bond agency *	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

### Other Methods of Financing:

- Government and EC Capital Grants;
- Lottery monies;
- PFI/PPP;
- Operating leases.

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The S.151 Officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.



**4.5 Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument. These can be amended during the year by the S.151 Officer to reflect market changes.

**4.6 Borrowing Limits**

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

## **TMP 5 Council, Clarity and Segregation of Responsibilities, and Dealing Arrangements**

### **5.1 Allocation of responsibilities:**

#### **a) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of capital strategy (from 2019/20 onwards).

#### **b) Cabinet**

- approval of amendments to the Council's adopted clauses and treasury management policy statement and treasury management practices;
- budget consideration and approval.

#### **c) Audit Committee**

- scrutinising the treasury management policy and procedures and making recommendations to the responsible body;
- reviewing outturn reports.
- scrutinising the treasury management mid-year review.

#### **d) S.151 Officer**

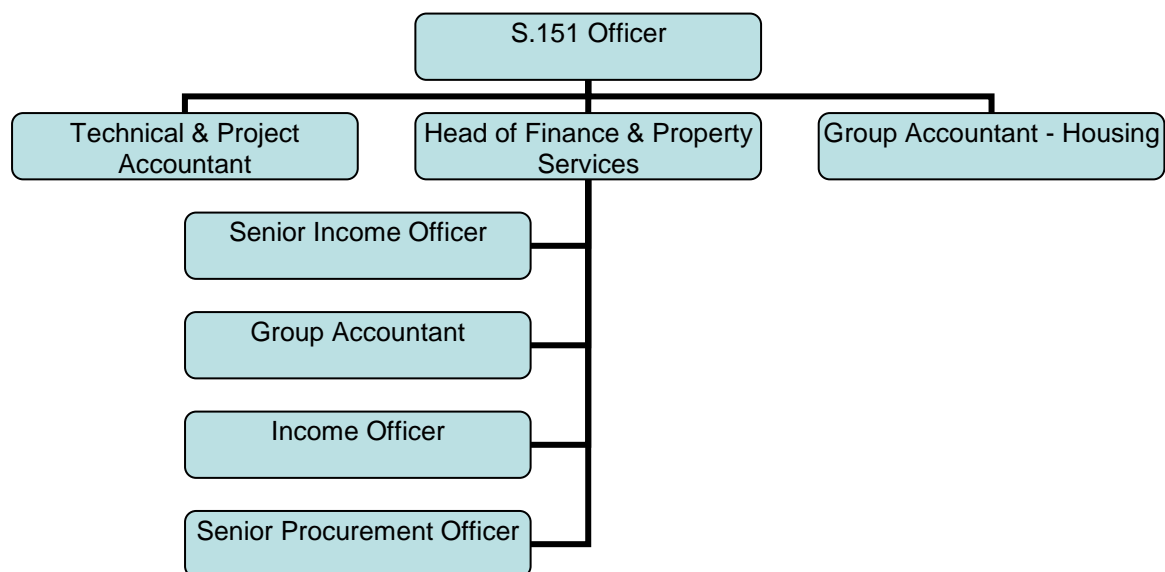
- Preparation and implementation of the Council's Treasury Management Practices as set out in this document.

### **5.2 Principles and Practices Concerning Segregation of Duties**

5.2.1 The following duties must be undertaken by separate officers: -

Dealing	Negotiation and completion of deal
Reconciliations	Reconciliation of cash control account and bank accounts
Entries onto systems	Processing of accounting entry Entry in treasury management system
Authorisation	Approval of transaction and payment

### 5.3 Treasury Management Council Chart



All those below the S.151 Officer form the 'Treasury Team' as referred to elsewhere in this document.

### 5.4 Statement of the treasury management duties/responsibilities of each treasury post

#### 5.4.1. The S.151 Officer

The S.151 Officer is the person charged with professional responsibility for the treasury management function and in this Council is the Corporate Services Director. This person will carry out the following duties: -

- a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- b) submitting regular treasury management policy reports;
- c) submitting budgets and budget variations;
- d) receiving and reviewing management information reports;
- e) reviewing the performance of the treasury management function;
- f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- g) ensuring the adequacy of internal audit, and liaising with external audit;
- h) recommending the appointment of external service providers;
- i) the S.151 Officer has delegated powers through this policy to make the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments;
- j) the S.151 Officer may delegate their power to borrow and invest to members of the Treasury Team. The Senior Income Officer, the Income Officer, the Group Accountant and the Senior Procurement Officer must conduct all dealing transactions. All transactions must be authorised by one of the Head of Finance & Property Services, the Technical & Project Accountant or the Group Accountant Housing;
- k) the S.151 Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible;
- l) prior to entering into any capital financing, lending or investment transaction, it is the

responsibility of the S.151 Officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations;

m) it is also the responsibility of the S.151 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets;

n) to amend Credit and Counterparty list limits to reflect market changes etc between reports to full Council.

#### **5.4.2 The Head of Finance & Property Services**

The responsibilities of this post are:

- a) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- b) recommending the appointment of external service providers;
- c) monitor adherence to agreed policies and practices on a day-to-day basis;
- d) maintaining relationships with counterparties and external service providers;
- e) supervising treasury management staff;
- f) prepare the Treasury Management Strategy, Annual Investment Strategy etc;
- g) preparation of the annual budget for treasury management;
- h) ensure that staff receive the appropriate training;
- i) ensure that staff are aware of and comply with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets;
- j) approval of transmission of priority payments and transactions on electronic banking system;
- k) maintain notes for the treasury management function;
- l) submitting management information reports to the S.151 Officer where appropriate;
- m) identifying and recommending opportunities for improved practices.

#### **5.4.3. Senior Income Officer**

The responsibilities of this post are: -

- a) execution of transactions;
- b) adherence to agreed policies and practices on a day-to-day basis;
- c) maintaining day to day relationships with counterparties and external service providers;
- d) monitoring performance on a day-to-day basis;
- e) advise the HoF on Treasury management matters;
- f) monitor and report on the activities of fund managers, if relevant;
- g) maintain cash flow diary and other records;
- h) check daily cash flow and agree dealing;
- i) dealing and recording of deals;
- j) check quarterly reconciliation;
- k) daily reconciliation of bank accounts using electronic banking system;
- l) preparation and transmission of priority payments and transactions on electronic banking system;
- m) preparation of documentation to confirm deals for signature of approved signatories;
- n) check receipt of treasury management funds;
- o) add to and delete as appropriate institutions included in the Approved Counterparty List in accordance with the set policies;
- p) the Senior Income Officer cannot deputise for the HoF.

#### **5.4.4 The Head of the Paid Service – the Chief Executive**

The responsibilities of this post are: -

- a) ensuring that the system is specified and implemented;
- b) ensuring that the S.151 Officer reports regularly to the full Council and Audit Committee (as appropriate) on treasury policy, activity and performance.

#### **5.4.5 The Monitoring Officer, currently the Head of Strategic Support**

The responsibilities of this post are: -

- a) Ensuring compliance by the S.151 Officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the S.151 Officer when advice is sought.

#### **5.4.6 Internal Audit**

The responsibilities of Internal Audit are: -

- a) Reviewing compliance with approved policy and treasury management practices;
- b) Reviewing division of duties and operational practice;
- c) Assessing value for money from treasury activities;
- d) Undertaking probity audit of treasury function.

### **5.5 Absence and Cover Arrangements**

In order to ensure sufficient day to day as well as holiday cover etc the:

- Technical & Project Accountant and the Group Accountant – Housing will have the same responsibilities and powers, per 5.4.2 above, as the Head of Finance & Property Services;
- The Group Accountant, the Income Officer and the Senior Procurement Officer will have the same responsibilities and powers, per 5.4.3 above, as the Senior Income Officer.

With four staff able to deal and carry out transactions and three staff approved to authorise such transactions there is sufficient resilience in the system. Procedures are in place regarding holiday arrangements etc to ensure that there are always sufficient staff to carry out treasury transactions.

### **5.6 Dealing Limits**

Due to the small numbers of people involved there are no dealing limits for individual posts.

### **5.7 List of Approved Brokers**

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2

### **5.8 Policy on Brokers' Services**

It is the Council's policy to use more than one broker, where possible.

### **5.9 Policy on Taping Conversations**

It is not the Council's policy to tape brokers' conversations

### **5.10 Direct Dealing Practices**

The Council deals direct with counterparties where it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

### **5.11 Settlement Transmission Procedures**

This is carried out electronically.

### **5.12 Documentation Requirements**

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

### **5.13 Arrangements Concerning the Management of Third-Party Funds.**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

## **TMP 6 Reporting Requirements and Management Information Arrangements**

### **6.1 Annual programme of reporting**

Annual reporting requirements before the start of the year: -

- 6.1.1 review of the Council's approved clauses in the constitution, treasury management policy statement and practices;
- 6.1.2 strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Strategy.
- 6.1.3 From 2019/20 capital strategy to give a longer term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning

Then:

- 6.1.4 Mid-year review
- 6.1.5 Treasury Outturn report after the end of the year.

### **6.2 Annual Treasury Management Strategy Statement**

6.2.1 The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.

6.2.2 The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.3 The Treasury Management Strategy Statement is concerned with the following elements:

- 6.2.3.1 Prudential and Treasury Indicators
- 6.2.3.2 current Treasury portfolio position
- 6.2.3.3 borrowing requirement
- 6.2.3.4 prospects for interest rates
- 6.2.3.5 borrowing strategy
- 6.2.3.6 policy on borrowing in advance of need
- 6.2.3.7 debt rescheduling
- 6.2.3.8 investment strategy
- 6.2.3.9 creditworthiness policy
- 6.2.3.10 policy on the use of external service providers
- 6.2.3.11 any extraordinary treasury issue
- 6.2.3.12 the MRP strategy

6.2.4 The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

### **6.3 The Annual Investment Strategy Statement**

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- 6.3.1 The Council's risk appetite in respect of security, liquidity and optimum performance
- 6.3.2 The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
- 6.3.3 Which specified and non-specified instruments the Council will use
- 6.3.4 Whether they will be used by the in house team, external managers or both, if applicable.
- 6.3.5 The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- 6.3.6 Which credit rating agencies the Council will use
- 6.3.7 How the Council will deal with changes in ratings, rating watches and rating outlooks
- 6.3.8 Limits for individual counterparties and group limits
- 6.3.9 Country limits
- 6.3.10 Levels of cash balances
- 6.3.11 Interest rate outlook
- 6.3.12 Budget for investment earnings
- 6.3.13 Use of a cash fund manager, if applicable
- 6.3.14 Policy on the use of external service providers

### **6.4 The Annual Minimum Revenue Provision Statement**

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

### **6.5 Policy on Prudential and Treasury Indicators**

- 6.5.1 The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
- 6.5.2 The S.151 Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the S.151 Officer shall submit the changes for approval to the Cabinet.

### **6.6 Mid-year review**

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- 6.6.1 activities undertaken
- 6.6.2 variations (if any) from agreed policies/practices
- 6.6.3 interim performance report
- 6.6.4 regular monitoring
- 6.6.5 monitoring of treasury management indicators for local authorities.



## **6.7 Annual Outturn Report on Treasury Management Activity**

An annual Treasury Outturn report will be presented to the Audit Committee at the earliest practicable meeting after the end of the financial year. This report will include the following: -

- 6.7.1 transactions executed and their revenue effects
- 6.7.2 report on risk implications of decisions taken and transactions executed
- 6.7.3 compliance report on agreed policies and practices, and on statutory/regulatory requirements
- 6.7.4 performance report
- 6.7.5 report on compliance with CIPFA Code recommendations
- 6.7.6 monitoring of treasury management indicators

## **6.8 Publication of Treasury Management Reports**

All the above reports are published on the Council's web site under the relevant Cabinet, Council or Committee heading.

# **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

## **7.1 Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

## **7.2 Budgets / Accounts / Prudential and Treasury Indicators**

The S.151 Officer will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The S.151 Officer will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

## **7.3 List of Information Requirements of External Auditors.**

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the internal system
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision, where relevant.
- External fund manager(s) valuations including investment income schedules and movement in capital values, where relevant.

## **TMP 8 Cash and Cash Flow Management**

### **8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

Cash flow projections are prepared annually from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

### **8.2 Bank Statements Procedures**

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Control section in Accountancy.

### **8.3 Payment Scheduling and Agreed Terms of Trade With Creditors**

Our policy is to pay creditors within 30 days of the receipt of their invoice and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 30 days.

### **8.4 Arrangements for Monitoring Debtors / Creditors Levels**

The HOF is responsible for monitoring the levels of debtors and creditors. Details are passed to the Treasury Team on a weekly or monthly basis, as appropriate, to assist in updating the cash flow system.

### **8.5 Procedures for Banking of Funds**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers section to deposit in the Council's banking accounts. The amounts so received are immaterial from a treasury viewpoint.

### **8.6 Practices Concerning Prepayments to Obtain Benefits**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the S.151 Officer.

## TMP 9 Money Laundering

### 9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland;
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property;
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences;
- tipping off a suspect, either directly or indirectly;
- doing something that might prejudice an investigation – for example, falsifying a document.

### 9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

### 9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

### 9.4 Local authorities

Councils and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly the Council will do the following: -

- 9.4.1 evaluate the prospect of laundered monies being handled by them;
- 9.4.2 determine the appropriate safeguards to be put in place;
- 9.4.3 require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness;
- 9.4.4 make all its staff aware of their responsibilities under POCA;
- 9.4.5 appoint a member of staff to whom they can report any suspicions. This person is the Head of Strategic Support;

- 9.4.6 in order to ensure compliance is appropriately managed, the Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel;
- 9.4.7 The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Head of Strategic Support and it shall be a requirement that all services and departments implement this corporate policy and procedures.

## **9.5 Procedures for Establishing Identity / Authenticity of Lenders**

It is not a requirement under POCA for local authorities to require identification from every person or Council it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on [www.fca.gov.uk](http://www.fca.gov.uk).

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

## **9.6 Methodologies for Identifying Deposit Takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on [www.fca.gov.uk](http://www.fca.gov.uk)).

All transactions will be carried out electronically for making deposits or repaying loans.

## **TMP 10 Training and Qualifications**

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council, and
- b) Members charged with governance of the treasury management function.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the HOF to ensure that all staff under their authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

### **10.1 Details of Approved Training Courses**

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

### **10.2 Records of Training Received by Treasury Staff**

The Training section will maintain records on all staff and the training they receive.

### **10.3 Approved Qualifications for Treasury Staff**

The S.151 Officer and the Head of Finance & Property Services must both be qualified accountants with one of the main accountancy bodies in the UK, or equivalent.

### **10.4 Statement of Professional Practice (SOPP)**

10.4.1 Where the S.151 Officer is a member of CIPFA, there is a professional need for the person to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

10.4.2 Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.4.3 The other accountancy bodies have similar requirements for their members.

### **10.5 Member training records**

Records will be kept of all training in treasury management provided to members.

### **10.6 Members charged with governance**

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

## **TMP 11 Use of External Service Providers**

### **11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers**

This Council may from time to time employ the services of other organisations to assist it in the field of treasury management. In particular, it may use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this Council, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house Treasury Team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance:

- The quality financial press;
- Market data;
- Information on government support for banks and
- the credit ratings of that government support.

### **11.2 Banking Services**

11.2.1 The Council's supplier is the HSBC Bank Plc.

11.2.2 Regulatory status – HSBC is a banking institution authorised to undertake banking activities by the FCA.

11.2.3 The branch address is Market Street, Loughborough. Tel :- 0845 878 873

11.2.4 The current contract arrangements are due to expire on 31<sup>st</sup> March 2020.

11.2.5 The cost of service is variable depending on schedule of tariffs and volumes.

11.2.6 Payments are due monthly.

### **11.3 Money-Broking Services**

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Senior Income Officer every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the HOF. Brokers currently used are:

- Tradition (UK) Ltd
- King and Shaxson
- RP Martin
- Link Asset Services Agency Treasury Services

These firms operate under FCA Regulations

The current list of approved brokers for investment is included in the Treasury Management and Annual Investment Strategy. Please see this document for the most up-to-date information.

## **11.4 Consultants and Advisory Services**

### **11.4.1 Treasury Consultancy Services**

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the HOF every year to check whether performance has met expectations.

The current supplier is Link Asset Services, of 40 Dukes Place, London, EC3A 7NH

Tel: 0871 664 6800.

These contract arrangements are due to expire on 20<sup>th</sup> May 20222.

Regulatory status – an investment adviser authorised by the FCA.

### **11.4.2 Leasing Consultancy Services**

None at present.

### **11.4.3 External Fund Managers**

None at present.

### **11.4.4 Other Consultancy services**

May be employed on short term contracts as and when required.

## **11.5 Credit Rating Agency**

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

## **11.6 Procedures and Frequency for Tendering Services**

Tenders are normally awarded on a 3 year basis with the option to extend for 2 years. The process for advertising and awarding contracts will be in line with the Council's Contract Procedure Rules.



## TMP 12 Corporate Governance

### 12.1 List of Documents to be Made Available for Public Inspection

12.1.1 The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

12.1.2 It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

12.1.3 The following documents are available for public inspection: -

- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision Strategy
- Treasury Outturn Report
- Mid-year Review of TMSS, AIS and MRPS
  
- Annual Statement of Accounts, which includes financial instruments and disclosure notes
- Annual budget
- Capital Plan
- From 2019/20 onwards Capital Strategy
  
- Minutes of Council, Cabinet and Audit Committee meetings

## **APPENDIX - Investment management practices for non-treasury investments**

This organisation recognises that investments taken for non-treasury management purposes require careful investment management. Such investments could include loans supporting service outcomes, investments in subsidiaries, or investment in commercial property.

The organisation's annual treasury management strategy, Investment Strategy and similar documents will cover all the organisation's investments, and will set out, where relevant, specific policies and arrangements for non-treasury investments.

The Council currently does not have any non-treasury investments. Were this position to change this schedule will be amended to include a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and contingent liabilities and the authority's risk exposure. It will be recognised that the risk appetite for these activities may differ from that for treasury management. It will also note the legal powers the Council has used for each non-treasury investment.