

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title:	Agenda
Date:	Monday 22 January 2018
Time:	10.30 am
Venue:	Mayor's Parlour West Suffolk House Western Way Bury St Edmunds
Full Members:	Chairman Sarah Broughton <i>Conservative Members (3)</i> Sarah Broughton Patricia Warby David Roach
Substitutes:	<i>Conservative Members (1)</i> Andrew Smith
By invitation:	Ian Houlder, Portfolio Holder for Resources and Performance
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Quorum:	Three Members
Committee administrator:	Christine Brain Democratic Services Officer (Scrutiny) Tel: 01638 719729 Email: christine.brain@westsuffolk.gov.uk

Public Information



St Edmundsbury
BOROUGH COUNCIL

Venue:	West Suffolk House Western Way Bury St Edmunds Suffolk IP33 3YU	Tel: 01284 757120 Email: democratic.services@westsuffolk.gov.uk Web: www.stedmundsbury.gov.uk
Access to agenda and reports before the meeting:	Copies of the agenda and reports are open for public inspection at the above address at least five clear days before the meeting. They are also available to view on our website.	
Attendance at meetings:	The Borough Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public.	
Public participation:	Members of the public who live or work in the Borough are invited to put one question or statement of not more than three minutes duration relating to items to be discussed in Part 1 of the agenda only. If a question is asked and answered within three minutes, the person who asked the question may ask a supplementary question that arises from the reply. A person who wishes to speak must register at least 15 minutes before the time the meeting is scheduled to start. There is an overall time limit of 15 minutes for public speaking, which may be extended at the Chairman's discretion.	
Disabled access:	West Suffolk House has facilities for people with mobility impairments including a lift and wheelchair accessible WCs. However in the event of an emergency use of the lift is restricted for health and safety reasons. Visitor parking is at the car park at the front of the building and there are a number of accessible spaces.	
Induction loop:	An Induction loop is available for meetings held in the Conference Chamber.	
Recording of meetings:	The Council may record this meeting and permits members of the public and media to record or broadcast it as well (when the media and public are not lawfully excluded). Any member of the public who attends a meeting and objects to being filmed should advise the Committee Administrator who will instruct that they are not included in the filming.	

Agenda

Procedural Matters

Part 1 - Public

1. Substitutes

Any Member who is substituting for another Member should so indicate, together with the name of the relevant absent Member.

2. Apologies for Absence

3. Minutes

1 - 4

To confirm the minutes of the meeting held on 20 November 2017 (copy attached).

4. Public Participation

Members of the public who live or work in the Borough are invited to put one question / statement of not more than 3 minutes duration relating to items to be discussed in Part 1 of the agenda only. If a question is asked and answered within 3 minutes, the person who asked the question may ask a supplementary question that arises from the reply.

A person who wishes to speak must register at least 15 minutes before the time of the meeting is scheduled to start. There is an overall limit of 15 minutes for public speaking, which may be extended at the Chairman's discretion.

5. Treasury Management Report 2017-2018 and Investment Activity (1 April to 31 December 2017)

5 - 14

Report No: **TMS/SE/18/001**

6. Treasury Management Policy Statement and Investment Strategy 2018-2019 and Treasury Management Code of Practice

15 - 66

Report No: **TMS/SE/18/002**

7. Date of Next Meeting

The next meetings of the Sub-Committee will be set to meet approximately one week prior to the July 2018, November 2018 and January 2019 meetings of the Performance and Audit Scrutiny Committee.

Part 2 – Exempt **NONE**

This page is intentionally left blank

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Minutes of a meeting of the **Treasury Management Sub-Committee** held on **Monday 20 November 2017** at **10.30 am** in the **Mayor's Parlour, West Suffolk House**, Western Way, Bury St Edmunds IP33 3YU

Present: **Councillors**

Chairman Sarah Broughton

David Roach

Substitutes attending:

Andrew Smith

By Invitation:

Ian Houlder, Portfolio Holder for Resources and Performance

60. **Substitutes**

The following substitution was declared:

Councillor Andrew Smith for Councillor Patricia Warby.

61. **Apologies for Absence**

Apologies for absence were received from Councillor Patricia Warby.

62. **Minutes**

The minutes of the meeting held on 17 July 2017 were confirmed as a correct record and signed by the Chairman.

63. **Public Participation**

There were no questions/statements from members of the public.

64. **Mid-Year Treasury Management Report 2017-2018 and Investment Activity (1 April to 30 September 2017)**

The Sub-Committee received Report No: TMS/SE/17/004, which provided a summary of investment activities for the first six months of 2017-2018.

The total amount of budgeted income from investments for the period 1 April to 30 September 2017 was £126,500 (average rate of return of 0.55%). Interest earned during the period totalled £155,841, an over-achievement of

interest of £29,341 and an over-achievement of 0.025% on the average rate of return.

The over-achievement of interest earned over this period was primarily due to higher cash balances being available for investment than expected. The increase in balances were due to timing differences in the respect of the collection and payment of local taxes and national non-domestic rates (NNDR) and other revenue work streams, and underspends relating to the budgeted capital programme.

It was predicted that interest earned would exceed the originally budgeted figure by approximately £26k, mainly due to higher cash balances as the predicted average rate of return remained at 0.55%.

The mid-year report also included a request to revise the "Red" % of portfolio limit from 35% to 50%. This was due to the majority of banks now having a Sector Colour Code rating of "Red" (there were no longer any Purple or Blue UK banks and only two Orange UK banks). The maximum investment with any one "Red" institution would remain at £11m.

The Sub-Committee scrutinised the investment activity for 1 April to 30 September 2017, and asked questions to which officers duly responded.

The Sub-Committee noted the Council had earned more in interest due to higher cash balances held, and this could change in future due to recent changes in interest rate.

Members discussed the request to revised the "Red" % of portfolio limit from 35% to 50% and raised some concern that there were no longer any purple or blue UK banks.

In response to a questions raised relating to the Council's main treasury advisor Capita regarding when its current contract expired, and how much the council paid Capita for its advise, the Service Manager agreed to provide a written response.

The Sub-Committee also discussed the summary of funds held, and noted that the Council had to hold a General Funds Reserve of £3m, and questioned whether this was a graduated amount depended on the size of the authority, to which the Service Manager agreed to provide a written response.

It was proposed by Councillor David Roach, seconded by Councillor Andrew Smith and with the vote being unanimous, it was

RECOMMENDED:

That subject to the approval of Council, the Mid-Year Treasury Management Report 2017-2018, including the change to the Annual Treasury Management and Investment Strategy and associated Code of Practice, attached as Appendix 1 to Report No: TMS/SE/17/004, be approved.

65. **Date of Next Meeting**

The Sub-Committee **noted** that the next meeting of the Sub-Committee would be held on Monday 22 January 2018, commencing at 10.30am.

The Meeting concluded at 10.50 am

Signed by:

Chairman

This page is intentionally left blank

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Treasury Management Report 2017-2018 and Investment Activity (1 April to 31 December 2017)	
Report No:	TMS/SE/18/001	
Report to and dates:	Treasury Management Sub-Committee	22 January 2018
	Performance and Audit Scrutiny Committee	31 January 2018
	Cabinet	6 February 2018
	Council	20 February 2018
Portfolio holder:	Ian Holder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	To present the Council's third Quarter Treasury Management Report summarising the investment activities for the period 1 April 2017 to 31 December 2017.	

Recommendation	<p>It is RECOMMENDED that, the Treasury Management Sub-Committee:</p> <p>(1) Scrutinise the content of this report, including details of the treasury management performance for the first nine months of 2017-2018 financial year; and</p> <p>(2) Make recommendations, as appropriate, via the Performance and Audit Scrutiny Committee to Cabinet and Council regarding the approval of the attached Treasury Management Report 2017-2018 for the period 1 April to 31 December 2017 (Appendix 1 refers).</p>
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>
Consultation:	<ul style="list-style-type: none"> Treasury management activities are undertaken in consultation with Link Asset Services (previously called Capita), the Council's appointed Treasury Management advisers, and also takes into account information obtained from investment brokers and other economic commentators. This committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by Cabinet and full Council.
Alternative option(s):	<ul style="list-style-type: none"> Options for the management of Council investments are formally considered within the annual treasury management and investment strategy. This includes key strategies in respect of the continuation of in-house management of funds, and the approach to be adopted in establishing the creditworthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject on-going review.
Implications:	
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> Please refer to main report
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none">

<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> This report is in-line with the Treasury Management Practice 6, (TMP6), of the Treasury Management Code of Practice. 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Fluctuation in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports. Use of interest equalisation reserve to smooth out year on year fluctuations.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of Link Asset Services (previously called Capita) advice on counterparty credit ratings (based on Fitch and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium
Ward(s) affected:		All Ward	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Annual Treasury Management and Investment Strategy 2017/18. (Report COU.SE.17.002 refers)	
Documents attached:		Appendix 1 – Third Quarter Treasury Management Report 2017-2018	

1. Third Quarter Treasury Management Report 2017-2018

- 1.1 Full details of treasury management activities during the period 1 April to 31 December 2017 are included in **Appendix 1** of this report.
- 1.2 Below is a summary of those investment activities:

INTEREST EARNED AND AVERAGE RATE OF RETURN SUMMARY			
	Budget	Actual	Difference
Investment Interest Earned	£189,750	£226,427	+ £36,677
Average Rate of Return	0.55%	0.56%	+0.01%

- The over-achievement of interest earned was primarily due to higher cash balances being available for investment than expected. These increases in balances are due to timing differences in the collection and payment of Council Tax, NNDR and other revenue streams, and underspends relating to the budgeted capital programme.
- As at 31 December 2017 we held £44,750,000 of investments.

INVESTMENT ACTIVITY SUMMARY	
	2017/2018 £
Opening Balance 01 April 2017	46,350,000
Investments made during the year (including transfers to business reserve accounts)	90,600,000
Sub Total	136,950,000
Investments realised during the year (including withdrawals from business reserve accounts)	92,200,000
Closing Balance 31 December 2017	44,750,000

Summary of Funds held	
Fund	£
Earmarked Revenue Reserves *	20,948,821
Capital Receipts Reserves *	13,820,769
General Fund Reserve	3,035,695
Cash flow Balances (held on behalf of others)	6,944,715
Total Value of Investments	44,750,000

* these funds will be utilised through the Council's 5 year financial planning period

2. **Borrowings and Temporary Loans**

- 2.1 The Council had no borrowings or temporary loans 31 December 2017.

3rd Quarter Treasury Management Report 2017/2018

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) was adopted by Council on 23 February 2010.
- 1.2 The primary requirements of the Code are as follows:
 - a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - c. Receipt by Council of an Annual Treasury Management Strategy Report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.
 - d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Treasury Management Sub-Committee.
- 1.3 Treasury management in this context is defined as:

'The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.4 The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely a mid-year review report of treasury management activities, for the financial year 2017/18.

2. Annual Treasury Management and Investment Strategy for 2017/18

- 2.1 The Council's 2017/18 Annual Treasury Management and Investment Strategy was approved by full Council on 21 February 2017 (report COU/SE/17/002 refers). The investment strategy for 2017/18 was to give priority to the security and liquidity of investments whilst at the same time seeking to optimise the return on investments.
- 2.2 The target rate of return for investments for 2017/18 was 0.55%. This target rate was based upon investment rate projections for the year provided by Capita (the Council's treasury management advisors), together with consideration of the profile of the Council's portfolio of investments (i.e. mixture of liquid and fixed term investments). Based upon the anticipated funds available for investment in the year (taking into account planned capital expenditure and receipts from asset disposals) this gave a target investment income of £253k for the year.

3. Interest Rates and Market Activity

- 3.1 As a result of the Monetary Policy Committee (MPC) meeting on 2 November 2017, the Bank of England increased the bank's Base Rate to 0.50%. Our advisors, Link Asset Services, (formally Capita) have commented that "as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts", they have however predicted that the Bank of England are likely to incrementally increase the Base Rate to around 1% by 2020. The knock on effect of this for the Council is continuing uncertainty on returns going forward. Currently the Council's returns for investments up to 3 months in length are at base rate or below, while those of 4 to 12 months are generally below 0.75%.
- 3.2 Markets will continue to be closely monitored and higher rates of return secured whenever possible.

4. The Council's Lending Criteria 2017/18

- 4.1 The Council's Annual Treasury Management and Investment Strategy requires that deposits are only placed with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers or, for non-rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 4.2 The unprecedented nature of the current economic climate has forced local authorities to keep their lending criteria under constant review to ensure that the balance between security of capital, liquidity of investments and yield on investment income is adequately maintained.
- 4.3 The below tables shows the credit criteria applicable at the 31 December 2017:

Credit Criteria: Rated Banks and Institutions

Capita Colour Code Key	Maximum Duration / Investment Values
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£18m for max of 2 years

Credit Criteria: Rated Building Societies

Capita Colour Code Key*	Credit Criteria 01/04/2017
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

Credit Criteria: Non- Rated Building Societies

Asset Base**	Credit Criteria 01/04/2017
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

order to simplify the complex system of commercial credit ratings, Link Asset Services has developed a system of colour coding which reflect the relative strengths of individual banking institutions. Details of these colour coding are provided in the Council's Annual Treasury Management and Investment Strategy.

** Further restrictions on non-rated building societies include a requirement for societies to be covered by a Dun and Bradstreet credit rating.

5 Compliance with Treasury Management Strategy and Code of Practice

- 5.1 During the first nine months of the financial year the Council operated within the approved Treasury limits and Prudential Indicators (as set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the period.

6 Interest Earned from Treasury Investments during the period 1 April to 31 December 2017

- 6.1 The table below summaries the interest earned during the period 1 April to 31 December, 2017 on the various Treasury Investments held by the Council;

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	£
Temporary Investments – Term Deposits	167,068
Bank of Scotland Current Account	463
Barclays Reserve Account	27
NatWest Call Account	272
Santander 365 Day Account	58,597
TOTAL INTEREST EARNED/ACCRUED	£226,427

- 6.2 The budgeted income from investments for the period 1 April to 31 December 2017 was £189,750 (average rate of return of 0.55%). Interest actually earned during the period totalled £226,424 (average rate of return 0.562%), an over-achievement of interest of £36,677 and an over-achievement of 0.012% on the average rate of return.
- 6.3 The over-achievement of interest earned was primarily due to higher cash balances being available for investment than expected. These increases in balances are due to timing differences in the collection and payment of Council Tax, NNDR and other revenue streams, and underspends relating to the budgeted capital programme.
- 6.4 By year end it is predicted that interest earned will exceed the originally budgeted figure by approximately £32k, this is mainly due to higher cash balances as the predicted average rate of return remains at 0.55%.

7. Investment Activity during the period 1 April to 31 December 2017

- 7.1 The table below summaries the investment activities during the period;

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2017/18 £
Opening Balance 01 April 2017	46,350,000
Investments made during the year (including transfers to business reserve accounts)	90,600,000
Sub Total	136,950,000
Investments realised during the year (including withdrawals from business reserve accounts)	92,200,000
Closing Balance 31 December 2017*	44,750,000

*a summary of the breakdown of these funds is available in paragraph 9 of this report

- 7.2 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to one year, dependent on the Council's cash flows, the view on interest rates and the actual interest rates on offer.
- 7.3 Where possible, investments were made in longer term fixed term investments (up to 1 year) in order to lock into interest rates which exceed the Council's budgeted rate of return and to provide some certainty of return for a proportion of the Council's investments.
- 7.4 During the period, for cash flow purposes (in particular relating to capital projects/purchases), use was made of the instant access and business reserve accounts with Barclays, NatWest and Bank of Scotland. As at 31 December 2017 £1.75m was held in these accounts at an average interest rate of 0.15%.
- 7.5 The table below shows the investments held as at 31 December 2017;

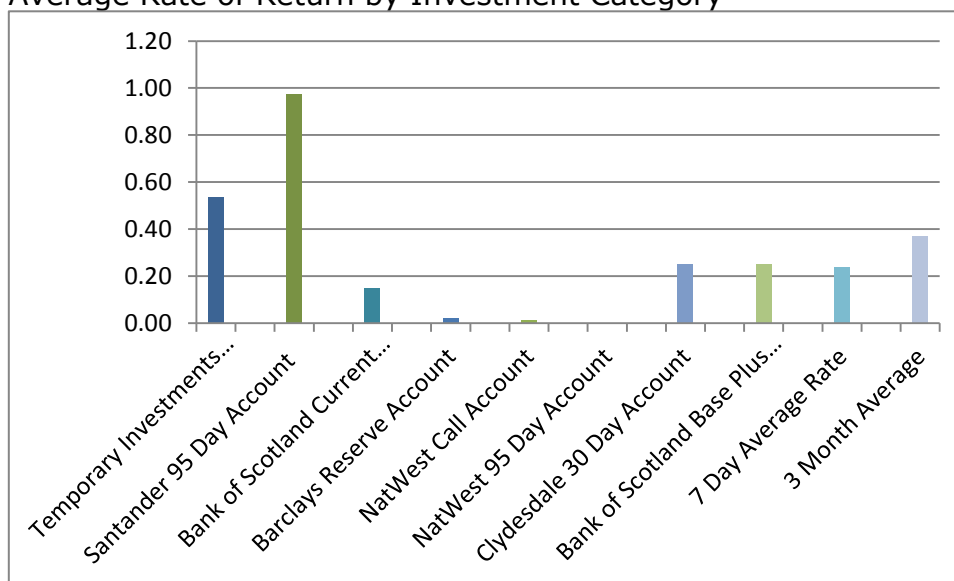
Investments held as at 30 September 2017				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	5,000,000	0.90%	13/02/17	12/02/18
Skipton B/Society	2,500,000	0.65%	02/06/17	19/03/18
Skipton B/Society	3,000,000	0.77%	05/06/17	05/06/18
Newcastle B/Society	6,000,000	0.65%	03/07/17	15/03/18
Coventry B/Society	1,000,000	0.24%	01/09/17	15/01/18
National Counties B/Soc	1,000,000	0.39%	02/10/17	15/01/18
National Counties B/Soc	1,500,000	0.47%	02/10/17	15/02/18
Principality B/Society	1,000,000	0.29%	16/10/17	12/02/18
Yorkshire B/Society	5,000,000	0.20%	01/11/17	22/01/18
Nottingham B/Society	3,000,000	0.47%	01/11/17	19/03/18
Nottingham B/Society	1,000,000	0.52%	01/12/17	07/03/18
Coventry B/Society	2,000,000	0.37%	01/12/17	19/02/18
Yorkshire B/Society	2,000,000	0.40%	01/12/17	19/02/18
Principality B/Society	1,000,000	0.52%	07/12/17	03/04/18
Santander 365 Day	8,000,000	0.95%	365 day	notice
Bank of Scotland	1,350,000	0.15%	Call	
Barclays Reserve	100,000	0.01%	Call	
NatWest Call Account	300,000	0.01%	Call	
TOTAL	44,750,000			

8. Average Rate of Return Comparison

- 8.1 The table below shows the change in the average rate of return for the various categories of investment quarter on quarter;

Comparison of Average Rate of Return			
	Qtr 1	Qtr 2	Qtr 3
Temporary Investments	0.594%	0.552%	0.534%
Santander 365 Day	1.017%	0.983%	0.972%
Bank of Scotland C/Acc	0.100%	0.150%	0.150%
Barclays Reserve	0.100%	0.026%	0.021%
NatWest Call Account	0.010%	0.010%	0.011%
7 Day Average	0.37%	0.24%	0.29%
3 Month Average	0.48%	0.30%	0.36%
Overall Average return on Investments	0.607%	0.575%	0.562%

Average Rate of Return by Investment Category



9. Summary of Funds Held

- 9.1 The table below shows a summary of the funds held as at 31 December 2017

Summary of Funds held	
Fund	£
Earmarked Revenue Reserves *	20,948,821
Capital Receipts Reserves *	13,820,769
General Fund Reserve	3,035,695
Cash flow Balances (held on behalf of others)	6,944,715
Total Value of Investments	44,750,000

*these funds will be utilised through the Council's 5 year financial planning period

10. Borrowing

- 10.1 As at 31 December 2017 the Council had no external debt.

This page is intentionally left blank

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Treasury Management Policy Statement and Investment Strategy 2018-2019 and Treasury Management Code of Practice	
Report No:	TMS/SE/18/002	
Report to and dates:	Treasury Management Sub-Committee	22 January 2018
	Performance and Audit Scrutiny Committee	31 January 2018
	Cabinet	6 February 2018
	Council	20 February 2018
Portfolio holder:	Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	To seek approval of the Treasury Management Policy Statement and Investment Strategy 2018/19 (including Treasury related Prudential Indicators) and Treasury Management Code of Practice.	

Recommendation:	<p>The Treasury Management Sub-Committee is asked to (<i>via the Performance and Audit Scrutiny Committee</i>):</p> <p>(1) Make recommendations to Cabinet and Council regarding the <u>adoption</u> of updated (December 2017) Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes.</p> <p>(2) Make recommendations to Cabinet and Council regarding the <u>approval</u> of the Treasury Management Policy Statement and Investment Strategy 2018-2019 (as set out in Appendix 1); and</p> <p>(3) Make recommendations to Cabinet and Council regarding the <u>approval</u> of the Treasury Management Code of Practice (as set out in Appendix 2).</p>
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
Consultation:	<ul style="list-style-type: none"> • Treasury management activities are currently undertaken in consultation with Sector (Capita), (the Councils appointed Treasury Management advisers) and also takes into account information obtained from investment brokers and other economic commentators. The committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by Cabinet and full Council.
Alternative option(s):	<ul style="list-style-type: none"> • Options for the management of Council investments are formally considered within the Annual Treasury Management and Investment Strategy.
Implications:	
<p><i>Are there any financial implications?</i> <i>If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> • Total budgeted interest receipts from investments, included in the MTFs, for 2018/19 is 308k
<p><i>Are there any staffing implications?</i> <i>If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> •
<p><i>Are there any ICT implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> •

<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Fluctuations in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports. Use of interest equalisation reserve to smooth out year-on-year fluctuations.	Medium
Bank and building society failure resulting in loss of Council funds.	High	Use of Sector advice on counterparty credit ratings (based on Fitch, S&P and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium
Ward(s) affected:		All Ward	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Annual Treasury Management and Investment Strategy 2017/18 (TMS.SE.17.002 and Appendix 1) Treasury Management Code of Practice 2017/18 (TMS.SE.17.002 - Appendix 2)	
Documents attached:		Appendix 1 – Treasury Management Policy Statement and Investment Strategy 2018-2019. Appendix 2 – Treasury Management Code of Practice 2018-2019.	

1. Key issues and reasons for recommendations

1.1 Treasury Management Policy Statement and Investment Strategy

1.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice requires that, prior to the start of each financial year, the Council formally approve a Treasury Management Policy Statement and Investment Strategy which sets out its treasury management policy and strategy for the forthcoming year.

1.1.2 The purpose of this report is to present those strategy statements to the Treasury Management Sub-Committee for consideration.

1.2 Treasury Management Code of Practice

1.2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that all Councils adopt a Treasury Management Code of Practice based on the treasury management practices published by CIPFA and guidance issued in their Code of Practice.

1.2.2 Adherence to the principles of the CIPFA Code should ensure that Treasury Management activities within the Council are effectively managed and adequately controlled.

1.3 Major changes between the 2017/2018 Strategy and Code of Practice and the new 2018/2019 Strategy and Code of Practice

1.3.1 In December 2017 CIPFA issued an updated Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes. Consequently the Council has updated its Strategy in line with these.

1.3.2 The main changes to the Strategy are as follows:

- the four clauses to be formally adopted have been updated
- an additional section has been added for 'investments that are not part of treasury management activity'

1.3.3 The main changes to the Code of Practice are as follows:

- Introduction – updated to reference new CIPFA Treasury Management Code 2017
- Definitions – updated to include 'investments' definition
- Requirements for operation of the code – removed section as duplicated elsewhere in the Code of Practice or in Treasury Management Policy Statement and Investment Strategy
- Treasury Management Policy Statement – removed section as duplicated in Treasury Management Policy Statement and Investment Strategy
- Treasury management Practices
 - TMP 1 general statement – updated to reference due diligence
 - TMP 1 all the subsections have slightly updated wording
 - TMP 1 (5) Inflation Risk – has been renumbered previously TMP1 subsection (9)

- Previous Market Risk Management TMP has been replaced with TMP 1 (9) Price Risk Management and has updated wording
- TMP 4 – updated with sentence about use of derivatives and compliance with MiFID II
- TMP 6 – addition paragraph regarding regular monitoring reports
- Section added for ‘investments that are not part of treasury management activity’ – links to the new requirement for a Capital Strategy

2. Interest Rate Projections

2.1 The following table shows the revised interest rate projections from Link Asset Services (the Council’s advisors) based on the current economic climate.

	Previous Strategy	New Strategy
2018/19	0.70%	0.60%
2019/20	0.70%	0.90%
2020/21	0.75%	1.25%
2021/22		1.50%

3. Counterparty Ratings

3.1.1 The Council continues to use the Link (Capita) Colour Coded matrix in conjunction with information available from other industry sources to identify suitable counterparties for investments.

3.1.2 ***Lending Criteria - Rated Banks and Investment Scheme***

Link Colour Code Key	Maximum Duration / Investment Values
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£18m for max of 2 years

3.1.3 ***Lending Criteria – Rated Building Societies***

Link Colour Code Key	Maximum Duration / Investment Values
Red	£11m for max of 1 year (subject to max 35% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

3.1.4 **Lending Criteria – Non Rated Building Societies(Asset Base Criteria)**

Asset Base	Maximum Duration / Investment Values
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

3.1.5 Please see the Treasury Management Policy Statement and Investment Strategy 2018/2019, (**Appendix 1**) and Treasury Management Code of Practice (**Appendix 2**) for full details.

ST EDMUNDSBURY BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT & INVESTMENT STRATEGY 2018/2019

To be approved at Council 20 February 2018

TREASURY MANAGEMENT POLICY STATEMENT 2018/2019

1. The Council defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of the optimum performance consistent with those risks”.

2. 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 Council, and any financial instruments entered into to manage these risks.

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

4. The Council’s high level policies for borrowing and investments are detailed in the Investment Strategy paragraphs below.

INVESTMENT STRATEGY 2018/19

Introduction

5. Guidance from the Department for Communities and Local Government (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set by the Council.

6. The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Treasury Management Code of Practice also sets out various requirements for the Council to meet including adoption of the following four clauses:

- The Council will create and maintain, as the cornerstones of effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMP’s), setting out the manner in which the council will seek to achieve those policies and objectives, and prescribing how it will management and control those activities

The content of the policy statement and TMP’s will follow the recommendations contained in Sections 6 & 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the council materially deviating from the Code’s key principles.

- The Council (ie full council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
 - The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Treasury Management Sub-Committee and for the execution and administration of treasury management decisions to the Section 151 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.
 - This organisation nominates the Performance and Audit Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
7. The Council's general policy objective is to invest surplus funds prudently. The Council's investment priorities are; security and liquidity of the capital at an optimum yield which is commensurate with security and liquidity.

Risk Management

8. The Council regards the successful identification, monitoring and control of risk to be prime criteria by which the effectiveness of its Treasury Management activities will be measured. The main risks to the Council's treasury activities are:
- Credit and Counterparty Risk – Security of the Council's Investments.
 - Market or Interest Rate Risk – Fluctuations in interest rate levels and thereby in the value of investments.
 - Liquidity Risk – Inadequate cash resources.
 - Inflation Risk – Exposure to inflation.
 - Legal and Regulatory Risk – Non compliance with Statutory and Regulatory requirements and the risk of fraud.
9. The above risks have been taken into account when setting the proposed Treasury Management Policy Statement and Investment Strategy. The risk that remains the Council's primary focus is that around the credit and counterparty risk and potential loss of its investments in a similar way to that following the Icelandic Banks collapse. The controls that the Strategy require are:
- credit worthiness checks of counterparties through the Council's external treasury advisor, Link Asset Services (previously known as Capita Asset Services) or
 - Asset Value checks assisting the Council to manage this risk.
10. Officers also have access, through the Council's treasury advisor, to real time market advice and expertise.
11. Further risk centres on the loss of interest receipts through decreased interest rates which has a direct impact on the Medium Term Financial Strategy (MTFS). Should the market move in an adverse direction, the actual receipts will be lower than forecast budgets and therefore have a detrimental effect on this revenue income stream to the MTFS. In the current climate this is a high risk for the Council but beyond its

control. The position will be monitored and actual interest receipts against forecast will be reported through Leadership Team and Performance, Audit and Scrutiny Committee, the outcome of which may require the Council to revise its MTFs accordingly.

12. Given the current volatility in financial markets and the performance of institutions, it is probable that status changes may occur during the next 12 months. Accordingly it may be necessary for Officers to update Members verbally as to the impact of these changes and, if appropriate, on alternative courses of action which may have to be considered in order for the Council to have worthwhile investment opportunities during the year.

Scheme of delegation and the role of the Section 151 officer

13. The Section 151 Officer, or Deputy Section 151 Officer, has delegated responsibility under the Treasury Management Code of Practice for the execution and administration of treasury management decisions.

14. The Section 151 Officer or Deputy Section 151 Officer may delegate their treasury management responsibilities to members of their staff. The full scheme of delegation can be found in the Council's Treasury Management Code of Practice (in the section TMP5 – Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements).

15. Staff that have responsibility for the treasury function are required to have sufficient knowledge and expertise in treasury management to be able to understand and critically consider the advice provided by the Council's treasury consultants.

16. The training needs of staff are considered on a regular basis as part of the Council's appraisal process. The Section 151 Officer or Deputy Section 151 Officer will ensure that treasury management staff receive appropriate training and have the necessary skills to be able to undertake their duties effectively.

Use of External Brokers/Advisors/Fund Managers

17. The Council has approval for the use of fund managers, brokers and/or advisors.

18. The Council will ensure, through regular meetings and discussions with their fund managers, brokers and/or advisors, that the service is tailored to the Council's needs and strategic aims, and that they appreciate the Council's position on the balance between risk and reward in its treasury activities. The Council has regard to all the advice and information provided by the external support, but responsibility for treasury decisions remains with the Council.

Creditworthiness Policy & Lending Criteria

19. The Council needs to set investment criteria for its investments based on who is an appropriate institution to hold the Council deposits. Ideally any counterparty policy should spread investments over the maximum number of counterparties, who vary in type i.e. building societies or banks. However, the key concern of the counterparty policy is to manage risk in a practical way rather than stick to a theoretical ideal.

Usually those organisations or types of investments with the lower risk (best credit worthiness) are those that pay the lowest returns, those with lower credit worthiness have to pay the higher returns to attract investors. Therefore the Council must strike a balance of risk and return.

20. The Council uses the creditworthiness service provided by Link Asset Services (previously known as Capita Asset Services). This service uses a sophisticated modelling approach which uses all of the following to produce a colour coded rating for each institution:

- credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors
- credit watches and credit outlooks from credit rating agencies
- sovereign ratings to select counterparties from only the most creditworthy countries
- credit default swap (CDS) data

21. These colour codes are used by the Council to determine the creditworthiness of counterparties and the maximum duration and value of investments with individual banks and building societies. Where banks/building societies are part of a merged group structure, the limits are applied to the group as a whole.

22. Link Asset Services produces two colour codes for each counterparty. The first colour code is based upon the assessments of the credit rating agencies and takes account of rating watches and outlooks as well as changes in sovereign ratings. The second colour code also takes account of Credit Default Swap (CDS) data relating to individual counterparties, which can give an early warning of potential changes in credit ratings. The Council uses the first colour code to determine the maximum value and duration of investments, but remains mindful and takes into account CDS data provided by Link (particularly where CDS spread is shown as "out of range" within the Link model), together with other market data, when selecting the counterparties to use. Within this framework the Council will therefore use counterparties within the following colour coded bands:

Lending Criteria - Rated Banks and Investment Scheme

Capita Colour Code Key	Maximum Duration / Investment Values
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£18m for max of 2 years

23. The lending criteria for rated building societies is based on the same Link colour coding system as the rated banks.

Lending Criteria – Rated Building Societies

Capita Colour Code Key	Maximum Duration / Investment Values
Red	£11m for max of 1 year (subject to max 35% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

24. All credit ratings will be monitored on an on-going basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for new investments 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

25. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information (for example, as provided by the Council's brokers/fund managers), information on government support for banks and the credit ratings of that government support.

26. The majority of UK building societies do not obtain formal credit ratings and as such, investments with these organisations have to be treated with caution. In the absence of formal credit ratings Link advises caution in the use of such counterparties. The following credit criteria (based on asset values and other sources of financial and credit rating information) have been established by the Council in consultation with Link and seek to limit the value and duration of investments with these organisations.

Lending Criteria – Non Rated Building Societies (Asset Base Criteria)

Asset Base	Maximum Duration / Investment Values
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

27. In addition to the above asset base criteria the following additional criteria are applied:

- A commercial credit rating organisation, such as Dun and Bradstreet, to be used to provide credit rating reports on building societies, prior to the placing of funds, to ensure that the proposed investment values are within recommended credit limits
- Latest available accounts to be obtained and reviewed by in-house staff to establish key trends and to ensure that the credit rating recommendations are based on latest available financial results

- Review of available media coverage for any advance negative warnings regarding the stability of individual building societies.

28. The Head of Resources and Performance, in consultation with the Portfolio Holder for Performance and Resources, will continue to monitor the adequacy of the above lending criteria and make changes as necessary to respond to the changing economic climate and external advice. Details of any changes made will be included within the next treasury management reporting cycle to the Treasury Management Sub Committee, Performance and Audit Scrutiny, Cabinet and full Council.

29. In looking for security and a return on smaller investments the Council will continue to use deposit /call accounts with major banks and building societies on its approved counterparty list. In parallel with this option, and to deal with any further uncertainties in the financial markets, should the need arise the Council will place investments with the Debt Management Office through the Debt Management Agency Deposit Facility or with other Local Authorities direct. Whilst the rates of interest earned may be below market rates the Council's capital investments will be protected.

Investment Security - Specified and Unspecified Investments

30. The Secretary of State requires that the Council identifies institutions which will be used for specified and unspecified investments.

31. The definitions of specified and unspecified investments are shown below:

- An investment is a *specified investment* if all of the following apply:
 - (a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
 - (b) the investment is not a long-term investment (1 year or more)
 - (c) the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 [SI 3146 as amended];
 - (d) the investment is made with a body or in an investment scheme of high credit quality (see below); or with one of the following public sector bodies:
 - i. the UK Government
 - ii. a local authority in England & Wales (as defined in section 23 of the 2003 Act) or similar body in Scotland or Northern Ireland
 - iii. a parish or community council.
- An *unspecified investment* is any other financial investment that is not a loan and does not meet the definition of a specified investment.

32. The criteria set for the use of specified and unspecified investments are set out below:

Specified Investments - All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Treasury Bills	--
Term deposits – local authorities	--
Term deposits – banks and rated building societies (see separate table for credit criteria re non-rated building societies)	Based on Link's Colour Code system
Bonds issued by a financial institution which is guaranteed by the UK government	AAA
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A, Individual C, Support 2
Sovereign bond issues (non-UK)	AAA
Money Market Funds	Short-term F1, Long-term A, Individual C, Support 2

Non-Specified Investments - All such investments will be sterling denominated, with maturities over 1 year, meeting the minimum 'high' rating criteria where applicable, or with non rated organisations – ie non rated building societies.

A maximum of 90% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	Max % of total investments	Max. maturity period
Term deposits – other LAs with maturities >1yr	-	50	2 years
Term deposits – non-rated building societies	See table above	90	1 year
Term deposits – banks and rated building societies with maturities >1yr	Based on Link's Colour Code system – see tables above	90	2 years
	Minimum Credit Criteria	Max % of total investments	Max. maturity period
Bonds issued by multilateral development banks with maturities >1yr	AAA	25	2 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities >1yr	AAA	25	2 years
Enhanced Cash Funds	AAA,S1	10	5 years

Investment Liquidity - Longer Term Investments

33.The following longer term investment restrictions will apply:-

- No more than £20M (nominal) can be invested for periods of 1 year or longer.

- No investments can be made for periods longer than 5 years.
- The total value of funds controlled by any individual advisor to the Council shall not exceed £30M (nominal).

On any day:

- No more than £15M (nominal) in total shall be held in investments where the remaining term up to the date of maturity is at least 4 years but not exceeding 5 years.
- No more than £20M (nominal) in total shall be held in investments where the remaining term up to the date of maturity exceeds 1 year.
- No more than 60% of the total value of investments held will be subject to a variable rate of return.

Borrowing/External Debt

34. The option of short or long term borrowing is available to the Council. However the Council must have regard to the Prudential Code when setting borrowing limits and must ensure that any borrowing is sustainable and affordable.

35. The Council's external debt as at 31 December 2017 was as follows:-

	£
Public Works Loan Board	0
Mortgages	0
Bonds	0
Temporary Loans	0
Long Term Loans	0

Council's Banker

36. On 1 April 2014 Lloyds Bank Plc became the Council's bank. On adoption of this strategy, the bank meets the credit criteria of F2 or above for short term investments. It is the Council's intention to use deposit and / or call accounts provided by Lloyds for short term liquidity requirements (e.g. overnight and weekend investments) and business continuity arrangements.

Balanced Budget Requirement

37. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

Future Interest Rates

38. The Bank of England increased the Official Base rate to 0.50% on 2 November 2017. It has remained at this rate since.

39. Given the current economic situation it is difficult to forecast when the base rate will increase. The Council is working with its external fund managers and advisors to ensure that it maximises all of its returns on investments in line with the latest information available.

40. The average investment interest rates which are expected to apply to the Council's investments have been determined in consultation with the external advisors and have been included in the MTFS interest projections as follows:

- 2018/19 – 0.60%
- 2019/20 – 0.90%
- 2020/21 – 1.25%
- 2021/22 – 1.50%

Total Investments

41. Please see the following table for full details of the investments held by the Council as at 31 December 2017.

Counterparty Name	Value £	Interest Rate %	Investment Date	Date of Return
BANK OF SCOTLAND ACCOUNT Bank of Scotland Call Account	1,350,000	0.150		
NATWEST ACCOUNTS NatWest Call Account NatWest 95 Day Notice Account	300,000 0	0.250 0.000		
BARCLAYS ACCOUNT Barclays Reserve Account	100,000	0.010		
SANTANDER ACCOUNT Santander UK 365 Day Notice Account	8,000,000	1.050	19-Oct-15	No notice
TEMPORARY INVESTMENTS				
Bank of Scotland	5,000,000	0.900	13-Feb-17	12-Feb-18
Skipton Building Society	2,500,000	0.650	02-Jun-17	19-Mar-18
Skipton Building Society	3,000,000	0.770	05-Jun-17	05-Jun-18
Newcastle Building Society	6,000,000	0.650	03-Jul-17	15-Mar-18
Coventry Building Society	1,000,000	0.240	01-Sep-17	15-Jan-18
National Counties Building Society	1,000,000	0.390	02-Oct-17	15-Jan-18
National Counties Building Society	1,500,000	0.470	02-Oct-17	15-Feb-18
Principality Building Society	1,000,000	0.290	16-Oct-17	12-Feb-18
Yorkshire Building Society	5,000,000	0.200	01-Nov-17	22-Jan-18
Nottingham Building Society	3,000,000	0.470	01-Nov-17	19-Mar-18
Nottingham Building Society	1,000,000	0.520	01-Dec-17	07-Mar-18
Coventry Building Society	2,000,000	0.370	01-Dec-17	19-Feb-18
Yorkshire Building Society	2,000,000	0.400	01-Dec-17	19-Feb-18
Principality building Society	1,000,000	0.520	07-Dec-17	03-Apr-18
TOTAL VALUE OF INVESTMENTS HELD	44,750,000			

Capital Finance

42.The financing of the Council’s capital programme is considered by Cabinet and is ratified by Council. External financing is required to be inline with the Council’s approved Treasury Management and Investment Strategy and approved Prudential Indicators.

Treasury Management Code of Practice

43.The Treasury Management Code of Practice is the subject of a separate report approved by Council. The Code of Practice underpins the Strategy and provides further details regarding the operational requirements and processes regarding treasury management.

Prudential Indicators

44.The Council’s overall Treasury Management Strategy and Code of Practice links into the Council’s Prudential Indicators and Minimum Revenue Provision Policy which are subject to separate reports to Council. A summary of the treasury related indicators is as follows, however these may be subject to change during the final budget setting processes. The final Prudential Indicator figures will be approved by Council in February:

	2017/18	2017/18	2018/19	2019/20	2020/21
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£000	£000	£000	£000	£000
	Approved	Revised	Estimate	Estimate	Estimate
Authorised limit for external debt -					
Borrowing	£14,359	£7,056	£38,778	£40,943	£40,943
Other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£14,359	££7,056	£38,778	£40,943	£40,943
Operational boundary for external debt -					
Borrowing	£12,923	£6,350	£34,900	£36,858	£36,858
Other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£12,923	£6,350	£34,900	£36,858	£36,858
Maturity Structure of Borrowing					
Upper Limit for % of borrowing maturing in:					
• Under 12 Months	100%	100%	100%	100%	100%
• 1 - 2 years	20%	20%	20%	20%	20%
• 2 - 5 years	20%	20%	20%	20%	20%
• 5 - 10 years	20%	20%	20%	20%	20%
• Over 10 years	100%	100%	100%	100%	100%
The lower limit for all periods	0%	0%	0%	0%	0%

Upper limit for fixed interest rate exposure expressed as a % of total investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure expressed as a % of total investments	60%	60%	60%	60%	60%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£20,000,000	£20,000,000	£20,000,000	£20,000,000	£20,000,000

Investments That Are Not Part Of The Treasury Management Activity

45. In addition to treasury management investment activities, the Council may invest in other financial assets and property primarily for financial return, these investments will be proportional to the level of resources available to the Council and the Council will ensure that the same robust procedures for consideration of risk and return are applied to these decisions.

Management practices for non-treasury investments.

46. This Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities includes loans supporting services outcomes, investments in subsidiaries, and investment property portfolios.

47. This Council will ensure that all council investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will recognise that the risk appetite for these activities may differ from that for treasury management.

48. The Council, in its Capital Strategy, will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

49. The Council's Capital Strategy is held as a separate document which is approved by Council and is available on our website.

Forest Heath & St Edmundsbury councils


West Suffolk

working together

ST EDMUNDSBURY BOROUGH COUNCIL

Treasury Management

Code of Practice

To be approved at Council on 20 February 2018

INTRODUCTION

This Treasury Management Code of Practice has been compiled in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017 ("the CIPFA Code").

Adherence to the principles of the CIPFA Code should ensure that Treasury Management activities within the authority are effectively managed and adequately controlled.

This Treasury Management Code of Practice has been written in conjunction with the Council's Treasury Management Policy Statement and Investment Strategy 2018/19.

Section 4H paragraphs 8.1 to 8.5 of the Council's Constitution also contains information regarding Treasury Management procedure rules, these are in line with this Code.

DEFINITIONS

For the purposes of this Code, "Treasury Management Activities" is defined as:-

"The management of the Local Authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks."

'Investments' in the definition above covers all the financial assets of the Council, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of the normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under this Code.

PURPOSE OF THE CIPFA CODE

CIPFA produced the Code and the accompanying guidance notes to help satisfy nine main purposes:

- To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.
- To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.
- To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.
- To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

- To enable CIPFA Members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".
- To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
- To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.
- To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
- To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) are incorporated in the Treasury Management Code of Practice in accordance with CIPFA Guidance:-

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities and dealing arrangements
TMP 6	Reporting requirement and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

TMP 1 Risk Management

General Statement

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 robust due diligence procedures will cover all external investments.

The Section 151 Officer or Deputy Section 151 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 to this document.

1. **Credit and Counterparty Risk Management**

Definition: *The risk of failure by a counterparty to meet its contractual obligations to the organisation 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 organisation's capital or current (revenue) resources.*

The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management 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 or derivative arrangements.

2. **Liquidity Risk Management**

Definition: *The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will thereby be 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/services objectives.

This 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.

3. **Interest Rate Risk Management**

Definition: *The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation 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 sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should

be subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council also has an interest equalisation reserve which, if necessary, can be used to help smooth out the level of interest received due to fluctuations in interest rates.

4. **Exchange Rate Risk Management**

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

5. **Inflation Risk Management**

Definition: *Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.*

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the Council's inflation exposures.

6. **Refinancing Risk Management**

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

The Council will ensure where applicable 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**

Definition: *The risk that the organisation 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 organisation 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 organisation, particularly with regard to duty of care and fees charged.

The 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 organisation.

8. **Fraud, Error and Corruption, and Contingency Management**

Definition: *The risk that an organisation 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. Further information regarding this is set out in the schedule to this document.

9. **Price Risk Management**

Definition: *The risk that, through adverse market fluctuations in the value of the principal sums an organisation 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.

TMP 2 Performance Management

The Council is committed to the pursuit of value for money 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 to this document.

TMP 3 Decision-Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purpose 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 to this document.

TMP 4 Approved Instruments, Methods and Techniques

The Council 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.

Where this Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MiFID II and keeps a record of those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes 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 these 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 the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer or Deputy Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirement and management information arrangements, and the implications properly considered and evaluated.

The Section 151 Officer or Deputy Section 151 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 Section 151 Officer or Deputy Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed within this document.

The Section 151 Officer or Deputy Section 151 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 Section 151 Officer or Deputy Section 151 Officer in respect of treasury management are set out within this document. The Section 151 Officer or Deputy Section 151 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.

TMP 6 Reporting Requirements and Management Information Arrangements

The Council 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, full Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review
- 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 committee to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such as an audit or scrutiny committee, will have the responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specified guidance notes.

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

TMP 7 Budgeting, Accounting and Audit Arrangements

The Section 151 Officer or Deputy Section 151 Officer will prepare, and the Council 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 Performance measurement, and TMP4 Approved instruments, methods and techniques.

The Section 151 Officer or Deputy Section 151 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.

The Council 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 Council 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.

TMP 8 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 Section 151 Officer or Deputy Section 151 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 Section 151 Officer or Deputy Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (2) liquidity risk management, further information regarding this is set out in the schedule of this document.

TMP 9 Money Laundering

The Council 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.

Any suspicions of money laundering activities would be reported to the Internal Audit Manager who is the Money Laundering Reporting Officer (MLRO) or the Senior Auditor who is the Deputy Money Laundering Reporting Officer.

TMP 10 Staff Training and Qualifications

The Council 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 Section 151 Officer or Deputy Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer or Deputy Section 151 Officer will ensure that the Council members tasked with treasury management responsibilities, including those

responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP 11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be 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 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. Where services are subject to formal procurement arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer or Deputy Section 151 Officer, and details of the current arrangements are set out in the schedule to this document.

TMP 12 Corporate Governance

The Council 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.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer or Deputy Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

INVESTMENTS THAT ARE NOT PART OF THE TREASURY MANAGEMENT ACTIVITY

Where, in addition to treasury management investment activities, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for consideration of risk and return are applied to these decisions.

Management practices for non-treasury investments.

This Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities includes loans supporting services outcomes, investments in subsidiaries, and investment property portfolios.

This Council will ensure that all council investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will recognise that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The Council's Capital Strategy is held as a separate document and is available on our website.

SUPPORTING SCHEDULES TO THE TREASURY MANAGEMENT PRACTICES (TMPs)

RISK MANAGEMENT (TMP1)

CREDIT AND COUNTERPARTY POLICIES RISK MANAGEMENT – TMP1(1)

Criteria for Creating/Managing Approved Counter Party Lists for Investments

The Council uses the creditworthiness service provided by Link Asset Services Ltd (formally known as Capita Asset Services). This service uses a sophisticated modelling approach which uses all of the following to produce a colour coded rating for each institution:

- credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors
- credit watches and credit outlooks from credit rating agencies
- sovereign ratings to select counterparties from only the most creditworthy countries
- credit default swap (CDS) data

These colour codes are used by the Council to determine the creditworthiness of counterparties and the maximum duration and value of investments with individual banks and building societies. Where banks/building societies are part of a merged group structure, the limits are applied to the group as a whole.

Link Asset Services produces two colour codes for each counterparty. The first colour code is based upon the assessments of the credit rating agencies and takes account of rating watches and outlooks as well as changes in sovereign ratings. The second colour code also takes account of Credit Default Swap (CDS) data relating to individual counterparties, which can give an early warning of potential changes in credit ratings. The Council uses the first colour code to determine the maximum value and duration of investments, but remains mindful and takes into account CDS data provided by Link (particularly where CDS spread is shown as "out of range" within the Link model), together with other market data, when selecting the counterparties to use. Within this framework the Council will therefore use counterparties within the following colour coded bands:

Lending Criteria - Rated Banks and Investment Scheme

Link Colour Code Key	Maximum Duration / Investment Values
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£18m for max of 2 years

The lending criteria for rated building societies is based on the same Link colour coding system as the rated banks.

Lending Criteria – Rated Building Societies

Link Colour Code Key	Maximum Duration / Investment Values
Red	£11m for max of 1 year (subject to max 35% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

All credit ratings will be monitored on an on-going basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use for new investments 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information (for example, as provided by the Council’s brokers), information on government support for banks and the credit ratings of that government support.

The majority of UK building societies do not obtain formal credit ratings and as such, investments with these organisations have to be treated with caution. In the absence of formal credit ratings Link advises caution in the use of such counterparties, particularly in the current economic climate. The following credit criteria (based on asset values and other sources of financial and credit rating information) have been established by the Council in consultation with Link and seek to limit the value and duration of investments with these organisations.

Lending Criteria – Non Rated Building Societies (Asset Base Criteria)

Asset Base	Maximum Duration / Investment Values
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

In addition to the above asset base criteria the following additional criteria are applied:

- A commercial credit rating organisation, Dun and Bradstreet, to be used to provide credit rating reports on building societies, prior to the placing of funds, to ensure that the proposed investment values are within recommended credit limits
- Latest available accounts to be obtained and reviewed by in-house staff to establish key trends and to ensure that Dun and Bradstreet recommendations are based on latest available financial results
- Review of available media coverage for any advance negative warnings regarding the stability of individual building societies.

The Head of Resources and Performance, in consultation with the Portfolio Holder for Performance and Resources, will continue to monitor the adequacy of the above lending criteria and make changes as necessary to respond to the changing economic climate and external advice. Details of any changes made will be included within the next treasury management reporting cycle to the Performance and Audit Scrutiny Treasury Management Sub Committee, Cabinet and full Council.

In looking for security and a return on smaller investments the Council will continue to use deposit /call accounts with major banks and building societies on its approved counterparty list. In parallel with this option, and to deal with any further uncertainties in the financial markets, it is proposed that, should the need arise the Council will place investments with the Debt Management Office through the Debt Management Agency Deposit Facility or with Local Authorities direct. Whilst the rates of interest earned are below market rates the Council's capital investments will be protected.

With regard to the Council's internally managed call accounts, interest receipts will not be included when considering investment limits. This is due to interest receipts being paid into the call accounts directly. Therefore until a withdrawal can be made the balance within the account may temporarily exceed the limits stated above.

Organisations that hold an acceptable rating and are included on the approved list of organisations for investments will be checked, on a monthly basis (and before an investment is made), against the latest information available to ensure their rating is still acceptable to the Council.

It is recognised, however, that during the term of an investment the credit rating of the institution may fall below the required standard. When this occurs advice will be sort from our external advisors regarding what should be done about the investment.

Investment Liquidity - Longer Term Investments

The following longer term investment restrictions will apply:-

- No more than £20M (nominal) can be invested for periods of 1 year or longer.
- No investments can be made for periods longer than 5 years.
- The total value of funds controlled by any individual advisor/fund manager to the Council shall not exceed £30M (nominal).

On any day:

- No more than £15M (nominal) in total shall be held in investments where the remaining term up to the date of maturity is at least 4 years but not exceeding 5 years.
- No more than £20M (nominal) in total shall be held in investments where the remaining term up to the date of maturity exceeds 1 year.
- No more than 60% of the total value of investments held will be subject to a variable rate of return.

Change of Limits for Amounts Invested

The investment limits (i.e. the maximum amount which can be invested with an organisation), can only be changed through approval by Council.

Specified and Unspecified Investments

1. The Secretary of State requires that the Council identifies institutions which will be used for specified and unspecified investments.
2. The definitions of specified and unspecified investments are shown below:
 - An investment is a *specified investment* if all of the following apply:
 - (a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
 - (b) the investment is not a long-term investment (1 year or more)
 - (c) the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 [SI 3146 as amended];
 - (d) the investment is made with a body or in an investment scheme of high credit quality (see below); or with one of the following public sector bodies:
 - i. the UK Government
 - ii. a local authority in England & Wales (as defined in section 23 of the 2003 Act) or similar body in Scotland or Northern Ireland
 - iii. a parish or community council.
 - An *unspecified investment* is any other investment that does not meet the definition of a specified investment. Basically these are investments with maturity dates greater than 1 year, or where no credit ratings have been awarded to the organisations concerned.
3. The criteria set for the use of specified and unspecified investments are set out below:

Specified Investments - All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Treasury Bills	--
Term deposits – local authorities	--
Term deposits – banks and rated building societies (see separate table for credit criteria re non-rated building societies)	Based on Link's Colour Code system
Bonds issued by a financial institution which is guaranteed by the UK government	AAA
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A, Individual C, Support 2
Sovereign bond issues (non-UK)	AAA
Money Market Funds	Short-term F1, Long-term A, Individual C, Support 2

Non-Specified Investments - All such investments will be sterling denominated, with maturities over 1 year, meeting the minimum 'high' rating criteria where applicable, or with non-rated organisations – i.e. non rated building societies.

A maximum of 90% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	Max % of total investments	Max. maturity period
Term deposits – other LAs with maturities >1yr	-	50	2 years
Term deposits – non-rated building societies	See table at 5.7 above	90	1 year
Term deposits – banks and rated building societies with maturities >1yr	Based on Link's Colour Code system – see tables at 5.3 & 5.4 above	90	2 years
	Minimum Credit Criteria	Max % of total investments	Max. maturity period
Bonds issued by multilateral development banks with maturities >1yr	AAA	25	2 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities >1yr	AAA	25	2 years
Enhanced Cash Funds	AAA, S1	10	5 years

Evidence of the Council's Powers to Deal with Counterparties

Where a new counterparty has been approved for inclusion on the approved list of organisations for investments, the Council will provide evidence of that approval (when required by the counterparty) prior to the placing of any investments.

The approved institution will be requested to provide, on headed paper, its bank details, the deadline for closing deals, and details of the dealer's names and contact telephone numbers.

LIQUIDITY RISK MANAGEMENT - TMP1(2)

Approved Minimum Cash Balances and Short Term Investments

In order to maintain the position of the Council, in terms of liquidity, the following limits have been set: -

- ◆ Daily treasury management procedures will aim to maintain a forecast consolidated balance in the region of £25k to £1.0m. However, balances over £1.0m may be retained in the bank account to be used to cover payments going out within the next week and the total interest lost, by retaining this money, does not exceed £75.00.
- ◆ If two internally managed investments are being placed on the same day with different maturity dates, one counterparty may be used for the two investments even if the investment % rate offered on one of the investments is not the highest rate and the subsequent loss of interest incurred does not exceed the pre-set limit of £75.00 on that one investment. However, the counterparty in question must be willing to accept the two investments as one CHAPS payment.

- ◆ At least £1M of short-term investments will be retained by the Council to meet cash flow requirements. Whilst this is a recommended minimum, the Council does have access to a £1m overdraft facility for any unexpected short term borrowing.

This is to ensure that: -

- ◆ Cash flow requirements are fully met.
- ◆ The amounts of the individual sums invested are sufficient to make external investment economically viable.
- ◆ The amounts of the individual sums invested are sufficient to attract competitive rates of return.

Standby Facilities/Call Accounts

The Council also has accounts with the Bank of Scotland, Barclays, Santander and NatWest.

Overdraft Arrangements

Overdraft arrangements have been arranged with the Council's bankers with a net limit of £1M. Interest will be charged at 2% above the Bank's Base Rate.

*The Bank also operates a **Daylight Exposure Limit** (also known as the Settlement Risk Exposure), which allows the consolidated bank accounts can be overdrawn during the course of the working day; the limit is set at £25M. The daylight exposure limit is intended to cover any crossover periods during the day when large payments have to be made from the Council's bank accounts, but the expected credits may not be received until later in the day.*

The daylight exposure limit only covers CHAPS payments.

Short & Long Term Borrowing Facilities

There is a borrowing limit that is set by the Council each year in accordance with the Local Government Act 2003. The limit is a specific indicator within the Councils Prudential Code which is reviewed annually in accordance with the code/best practice and is approved by Full Council.

Should the need for further borrowing prove necessary, or appropriate for strategic purposes, provided the limit is within the prudential indicator, then arrangements would be made in accordance with the code.

INTEREST RATE RISK MANAGEMENT – TMP1(3)

The Council will manage its exposure to fluctuations in interest rates with a view to 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 investment instruments, methods and techniques, primarily to create stability and certainty of 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 subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council also has an interest equalisation reserve which, if necessary, can be used to help smooth out the level of interest received due to fluctuations in interest rates.

EXCHANGE RATE RISK - TMP1(4)

This is the risk that fluctuations in foreign exchange rates may create an unexpected, or unbudgeted, burden on the Council's finances. In order to mitigate this risk the Council's investments are restricted to sterling, however, it does have access to real-time market advice from its external advisors which will enable it to assess any potential risks arising and to take any necessary action.

INFLATION RISK MANAGEMENT TMP 1 (5)

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 Council 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.

REFINANCING RISK MANAGEMENT - TMP1(6)

The Council holds reliable and accurate records of the terms and maturities of its borrowings (where applicable) to enable it to plan the timing of, and successfully negotiate appropriate terms for its refinancing, if required.

LEGAL AND REGULATORY RISK MANAGEMENT – TMP1(7)

The regulations and statutory provisions or any statutory amendment, regarding enactment or modification thereof, under which Treasury Management investments are performed would include: -

- ◆ Local Government Act 1972 (taking account of the Trustee Investment Act 1961).
- ◆ The Local Government Act 1989.
- ◆ Local Authorities (Capital Finance) Regulations 1990 (SI 1990 No. 426) as amended.
- ◆ Local Authorities (Capital Finance) (Approved Investments) (Amendment) Regulations 1990 (SI 1991 No. 501). This SI was one of many which amended SI 1990 No. 426 above.
- ◆ The Local Authorities (Contracting Out of Investment Functions) Order 1996 (SI 1996/1883).

The regulations and statutory provisions under which Treasury Management borrowing is performed would include: -

- ◆ The Local Government and Housing Act 1989 (including sections 43, 45 and 46 of that Act).
- ◆ The Public Works Loan Board Acts 1965 and 1967.
- ◆ The Local Authorities (Borrowing) Regulations 1990 (SI 1990/767) as amended by the Local Authority (Borrowing) (Amendment) Regulations 1991 (SI 1991/551).
- ◆ The Local Government Act 2003.

Treasury Management procedures will be updated to accommodate any new legislative provisions.

It is recognised 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.

FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT – TMP1(8)

Fraud and Error

The Council recognises that there is a risk of fraud or error occurring through the performance of the Treasury Management function. Consequently procedures are in place to ensure control over the organisations with which the Council invests (see Credit and Counterparty Risk Management), and to ensure there is an adequate segregation of duties.

The Council now uses an internet based banking system in connection with the Treasury Management function, however access to this is tightly controlled and the security and integrity of the site/system is managed by the Council's bankers Lloyds Bank Plc (a separate procedure manual details the system, procedures and emergency /contingency arrangements applicable in terms of making payments, and obtaining treasury information is available).

Treasury information may be made available on the Council's website however care will be exercised to ensure that no sensitive Treasury information is published through such arenas.

The Council has an "Anti-fraud Policy" and "Whistle-blowing procedures" that identify measures to control the risk of fraud by staff and Members. These can be found in the Internal Audit section of the Council's website.

Internal Audit undertake an annual audit review of the Treasury Management system and assess the effectiveness of controls implemented to prevent or detect fraud and error.

Shortfall of Funds

Should the Council suffer an unforeseen shortfall of funds, the nature of the position should be discussed with the Section 151 Officer or the Deputy Section 151 Officer.

Dependent on the nature of the shortfall, it may be necessary to negotiate terms with the Councils bankers to cover the shortfall, or to loan money from a Broker.

The Council has access to a £1m overdraft with its current bankers and interest on this account would be charged at 2% above base rate.

Insurance

The Council holds Fidelity Guarantee insurance, which covers loss of money or property belonging to the Council or for which they are legally responsible, resulting from any act of fraud or dishonesty of its employees, discovered during the period of insurance or within 24 months of the expiration.

All employees are covered by the policy, with the following limits being applicable: -

Six Designated Resources and Performance Staff (responsible for Treasury management)	£5.0M
All other staff	£0.5M

The Resources and Performance posts insured for the Treasury Management value of £5M are as follows: -

Head of Resources and Performance
Senior Business Partner (Transactional and Regulatory Services)
Business Partner (Transactional and Regulatory Services)
Team Leader (Treasury and Regulatory Services)
2 x Business Support Officer (Treasury and Regulatory Services)

PRICE RISK MANAGEMENT - TMP1(9)

The Council mitigates this risk through the use of market advice from its External Fund Managers and through a monthly review of the credit ratings. The 2008 Credit Guarantee scheme has also been used previously, but has not been available since May 2010.

Methodology Applied To Evaluate the Impact Of Treasury Management Decisions

The Council invests its funds predominantly in fixed term deposits, a proportion of which are short term (to meet cash flow requirements) and the majority of which are invested for periods determined by the Council, in conjunction with its external fund managers, to meet its longer term requirements.

Political Risks and the Management Thereof

There are cycles of political change at both national and local levels. An overview of the political situation at both levels will be maintained, so that any likely political risks can be identified at the earliest opportunity, with a view to addressing any issues proactively at a corporate management level

PERFORMANCE MEASUREMENT – TMP2

Overall the main benchmark for the rate of return on the Councils investments is the seven-day average rate & 3 month average rate provided by Link Asset Services.

A quarterly statement is produced, for each of the Councils investment categories, showing the average rate of return for each category compared to the seven-day average rate.

The average rate calculations are weighted in order to take account of the value and duration of investments, in order to ensure an accurate rate of return is produced.

DECISION MAKING AND ANALYSIS - TMP3

Funding

Funding of the Council's capital expenditure is dealt with in a report to the Council prior to the commencement of each financial year.

A five year capital programme is presented to Council, for General Fund capital expenditure, along with the financing proposals.

Projections are carried out annually (and prior to the inclusion of any new capital projects) to ensure that sufficient finance is available to meet the Councils capital expenditure requirements.

Revenue funding is dealt with through the Revenue Budget and Council Tax setting process.

Borrowing

There is a borrowing limit that is set by the Council each year in accordance with the Local Government Act 2003. The limit is a specific indicator within the Councils Prudential Code which is reviewed annually in accordance with the code/best practice and is approved by full Council.

Should the need for further borrowing prove necessary, or appropriate for strategic purposes, provided the limit is within the prudential indicator, then arrangements would be made in accordance with the code. If the need to borrow exceeds the limit set in the prudential indicator approval will be sort from full Council.

Policy on Interest Rate Exposure

The Policy on interest rate exposure is now dealt with through the Prudential Code in accordance with the Local Government Act 2003. The limits that are being recommended to Council for 2018/19 are being considered and will be reported to Council as part of the Prudential Code update.

Processes/Records to be Held

When a loan is received, the following procedures should be followed, and records held: -

Prepare a temporary loan receipt and obtain the signature of a Director or the Head of Resources and Performance or duly authorised Officer.

Enter the details of the loan in the lender’s account register and the repayment register.

If the loan is for a fixed term, enter the details of the loan in the cash flow spreadsheet on the maturity date.

When the broker’s loan confirmation note is received, check the terms with the lender’s account before filing it away.

List of Approved Methods of Raising Capital Finance

The following list specifies which borrowing instruments, on and off balance sheet, may be adopted where applicable:-

<u>LONG TERM DEBT INSTRUMENTS</u>	<u>FIXED RATES</u>	<u>VARIABLE RATES</u>
PWLB	*	*
Market Long Term	*	*
Local Bonds	*	
Overdraft		*
Negotiable Bonds	*	
Commercial Paper	*	
Medium Term Notes	*	
Leasing		*
<u>SHORT TERM DEBT INSTRUMENTS</u>		
Market Temporary	*	*
Local Temporary	*	*
Stock Issues	*	*

- ◆ Should borrowing be through the utilisation of loan instruments, as defined by S43 (2) (C) of the Local Government & Housing Act 1989, the loan instruments will, wherever possible and to the closest possible degree, follow the format of the loan instrument pro-forma, published in the document compiled by the Financial Law Panel and entitled "Local Authority Borrowing - Loan Instruments, A Practice Recommendation". This policy is in accordance with the advice provided by CIPFA.

List of Approved Sources of Borrowing

LONG TERM BORROWING SOURCES OF FINANCE

- ◆ Public Works Loan Board (PWLB)
The main source of longer term borrowing for many Local Authorities has been from the Government through the Public Works Loan Board.
- ◆ Money Market Loans - Long Term

Loans from the money markets do not usually match the lowest rates available from the PWLB. However this is not always the case especially for loans up to 5 years where money market loans may be more advantageous.

- ◆ Local Bonds
The issue of local bonds enables members of the public to invest in Local Authorities.
- ◆ Negotiable Bonds
These are issued by a broker on behalf of a Local Authority. Each issue has to be authorised by the Bank of England.
- ◆ Commercial Paper and Sterling Medium Term Notes
The Local Government and Housing Act 1989 permits Local Authorities to issue these types of loan instrument:
 - Sterling commercial paper (for 7 days to 1 year).
 - Sterling medium term notes (for 1-5 years).These are issued and transferable in minimum amounts of £100,000.
- ◆ Leasing
Operating leasing falls outside of capital controls and is often therefore used by Authorities for the purchase of equipment etc.
- ◆ Stock Issues
These are usually only available for very large amounts. Such issues are in excess of the Council's current requirements.

Short Term Borrowing Sources of Finance (up to 364 days)

- ◆ Overdraft
Overdraft arrangements have been arranged with the Council's bankers with a Limit of £1m. Interest will be charged at 2% per annum above the Bank's Base Rate.
- ◆ Money Market Loans - Short Term
Loans from the Money Markets can be obtained on a short term basis.
- ◆ Local Temporary Loan
Temporary loans offer the opportunity for the public to make short term investments with an Authority.

List of Approved Instruments for Investment

The approved investment instruments of the Council are detailed below:-

- ◆ Marketable securities issued or guaranteed by the Government
- ◆ Fixed deposits made with approved institutions
- ◆ Enhanced Cash Funds

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS – TMP5

Introduction

The Section 151 Officer or Deputy Section 151 Officer has delegated responsibility for the execution and administration of treasury management decisions.

The Section 151 Officer or Deputy Section 151 Officer may delegate their treasury management responsibilities to members of their staff. Details of these arrangements are set out below.

Authorised signatories of the Council will be permitted to sign documentation relating to the Council's borrowings and investments.

The daily treasury management routines to be followed are available on request. These procedures will be maintained and reviewed annually.

Delegated Powers and Responsibilities

The Cabinet/Full Council is responsible for:

- ◆ Adoption of the revised CIPFA Treasury Management Code and Treasury Management Policy.
- ◆ Receiving, commenting on, and approval of the Annual Treasury Management and Investment Strategy Statements (prior to the commencement of the financial year).
- ◆ Receiving and commenting on an annual report on treasury management activity for the preceding financial year as soon as possible after the end of the financial year but in any case by the end of September.
- ◆ Receiving and commenting on other periodic reports on the treasury management function and its performance during the year.
- ◆ Approval of the Prudential Indicators, Authorised Borrowing Limit and Operational Boundary for borrowing.

The Treasury Management Sub-Committee is responsible for:

- ◆ Reviewing the treasury management policy and procedures and making recommendations to the responsible body
- ◆ Receiving and reviewing regular monitoring reports
- ◆ Approving the selection of external service providers and agreeing terms of appointment.

The Assistant Director (Resources & Performance) (151 Officer) is responsible for:

- ◆ Ensuring compliance with the treasury management policy statement and that the policy complies with the law.
- ◆ Carrying out regular reviews of the treasury management function.
- ◆ Ensuring that any variations to the treasury policy or the internal practices fully comply with the law and the code of practice.
- ◆ Ensuring that there is an adequate internal audit function.

- ◆ Liaising with the Deputy 151 Officer on treasury management decisions.
- ◆ Making long term investment decisions in accordance with the approved policy.
- ◆ Deciding on funding and short term policies for the ensuing year.
- ◆ Deciding on lending and investment policies for the ensuing year.
- ◆ Advising the Council on the acceptability and characteristics of treasury instruments.
- ◆ Establishing the vires of the proposed action and the instruments to be used.
- ◆ Ensuring that the organisation of the treasury management function is adequate to meet current requirements and that there is an appropriate division of duties.
- ◆ Assessing and appointing brokers/advisors/external fund managers.
- ◆ Reporting to elected members and advising the monitoring officer where that is appropriate.
- ◆ Re-determining treasury management strategy in the light of forecast changes in the economy and reporting it to members at the appropriate time.
- ◆ Approving changes to counterparty credit limits, in consultation with the Portfolio Holder for Performance and Resources.
- ◆ Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

The Service Manager - Finance & Performance / Senior Business Partner (Transactional and Regulatory Services) /Deputy Section 151 Officer is responsible for:

- ◆ Reviewing the annual Treasury Management Statement and Code of Practice.
- ◆ Overall management of the Treasury function.
- ◆ Deputising for the Assistant Director (Resources and Performance) in his/her absence for matters relating to the treasury management function.
- ◆ Monitoring adherence to approved policy by treasury management team.
- ◆ Ensuring that an appropriate division of duties is in place and that all staff are properly trained to carry out the required duties.
- ◆ Making recommendations regarding:-
 - the appointment of brokers
 - the organisation of the treasury management function
 - funding and short term policies
 - lending and investment policies
 - acceptability and characteristics of treasury instruments
 - the vires of proposed action and the instruments to use.
- ◆ Reviewing the performance of the treasury management function at least twice a year.
- ◆ Ensuring that all treasury staff are aware of and have access to the Financial Conduct Authority handbook of rules and guidance which is available on the FSA website.
- ◆ Ensuring that the day to day activities accord with the Treasury Management Statement.
- ◆ Ensuring compliance with policies, limitations and directions.
- ◆ Monitoring performance of brokers employed.
- ◆ All recording and administrative functions complying with the system and procedures laid down in the treasury management document.
- ◆ Reviewing regular performance reports.

The Business Partner / Team Leader (Treasury and Regulatory Services) is responsible for:

- ◆ Overseeing the daily treasury management function.
- ◆ Ensuring that the treasury management procedures and practices are regularly reviewed and adhered to.

- ◆ Preparing the draft Treasury Management Statement.
- ◆ Producing regular performance reports.
- ◆ Monitoring performance of brokers employed.
- ◆ Deputising for the Senior Business Partner (Transactional and Regulatory Services) in his/her absence for matters relating to the treasury management function.

The Business Support Officer is responsible for:

- ◆ Dealing with the money market, complying with the systems and procedures laid down in the treasury management document.
- ◆ Updating of daily cash flow.
- ◆ Ensuring that properly authorised transactions are actioned in a timely manner.
- ◆ Reconciling treasury management transactions on a monthly basis.
- ◆ Deputising for the Team Leader (Treasury and Regulatory Services) in his/her absence for matters relating to the treasury management function.

The Internal Audit Manager is responsible for:

- ◆ Reviewing compliance with the approved policy and procedures on treasury management.
- ◆ Reviewing the division of duties and operational practices.
- ◆ Assessing value for money from treasury activities.
- ◆ Undertaking probity audit of treasury function.
- ◆ Reporting and monitoring of Money Laundering activities.

The Chief Executive is responsible for:

- ◆ Ensuring that the system is laid down and resourced.
- ◆ Ensuring that the Section 151 Officer or Deputy Section 151 Officer reports regularly to elected Members on treasury policy, activity and performance.

The Monitoring Officer is responsible for:

- ◆ Ensuring compliance by the Section 151 Officer or Deputy Section 151 Officer with the treasury policy and that the policy complies with the law.
- ◆ Satisfying himself / herself that any proposal to vary treasury policy or practice complies with the law.
- ◆ Advising the Section 151 Officer or Deputy Section 151 Officer where their advice is sought.

Use of External Brokers/Advisors/Fund Managers

The Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external advisors and/or fund managers 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 organisation, especially in terms of being objective and free from conflicts of interest.

Link (Capita) are the Council's current treasury advisor. In addition the Council has approval to investigate further the use of fund managers.

Bankers

The Council's bankers are Lloyds Bank Plc.

Long Term Borrowing (Public Works Loan Board)

The officers, authorised to obtain loans with the Public Works Loan Board (once full Council approval has been received), are as follows:-

- The Head of Resources and Performance (Section 151 Officer)
- Deputy Section 151 Officer
- Senior Business Partner (Transactional and Regulatory Services)
- Business Partner (Transactional and Regulatory Services)
- Team Leader (Treasury and Regulatory Services)
- Business Support Officer (Treasury and Regulatory Services)

Investment Direct Dealing Practices

Where there are sufficient funds available to justify an investment, three quotations are obtained from the organisations on the approved list of organisations for investments.

It is essential to ensure that when selecting these organisations from the approved list of organisations for investment, the investment limits with an organisation are not exceeded.

Three quotations ensure that the best rate is obtained on the investment.

Policy on Taping of Conversations

The Council has no facilities for recording dealing and is therefore reliant on any recordings of conversations relating to dealing held by the institutions with which it deals.

Settlement Transmission Procedures

Before transmission of a payment to the investment organisation, a payment voucher is completed with the details of the organisations name, Sort Code (and where appropriate, their Account Number), details of the period of the investment, the interest rate achieved and the amount to be invested.

Before any payments can be transmitted, 2 independent authorisations are required on the banking system.

Documentation Requirements

There are spreadsheets in place to record all aspects of treasury management and investment. These spreadsheets are reconciled, independently checked and signed on a monthly basis.

REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

The nature and frequency of reporting are covered in Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements.

Four Treasury Management reports will be made to Council each financial year, the Treasury Management and Annual Investment Strategy Statement Report, the

Treasury Management Monitoring Report, the Treasury Management Annual Report, and the report on the Prudential Indicators.

In addition, further reports will be presented to Council for the approval of revisions to the Treasury Management Code of Practice, and to seek approval for any revisions to the approved Treasury Management Strategy, Prudential Indicators and any additions or deletions from the approved list of organisations for investments.

All reports must be approved by Council.

Reporting Content

The prescribed minimum content of the four main annual reports to Council, are detailed in the summaries below. This minimum content gives a degree of flexibility, in terms of the content of the report, whilst ensuring that key issues are always reported.

Annual Strategy Report Minimum Contents Summary

The Annual Strategy Report must be submitted to Council by 31 March each year and should, as a minimum, contain the following: -

- ◆ Details of the level of external debt
- ◆ Investment Limits
- ◆ External investment fund limits
- ◆ Forecast interest rate movements for the ensuing year
- ◆ Breakdown of surplus funds held
- ◆ Proposed investment and / or borrowing strategy

Annual Report Minimum Contents Summary

The Treasury Management Annual report must be submitted to Council by 30 September following the previous financial year's end, and should, as a minimum, contain the following: -

- ◆ Details of the level of external debt held and a list of lenders names
- ◆ Investment performance against benchmark criteria
- ◆ A breakdown of investments held
- ◆ An explanation of interest rate movements during the financial year, against forecast movements in the original Annual Strategy Report
- ◆ Any breaches from the Code of Practice
- ◆ A statement of compliance from the Internal Audit manager

Monitoring Report Minimum Summary of Contents

The monitoring report must be submitted to Council by 31 December each year and should, as a minimum, contain the following: -

- ◆ Details of the level of external debt
- ◆ Investment performance against benchmark criteria
- ◆ A breakdown of investments held
- ◆ Any revisions to Treasury Management strategy
- ◆ A revised interest rate forecast for the remainder of the financial year
- ◆ Any breaches from the Code of Practice
- ◆ Show the position as at the end of 30 September

Revisions to the Treasury Management Code of Practice Contents Summary

The report must be submitted to Council by the 7 March each year and should contain as a minimum, the following;

- ◆ Any legislative changes
- ◆ Any guidance changes
- ◆ Any significant changes in procedures
- ◆ Confirmation that the CIPFA Code of Practice for Treasury Management in the Public Services has been adopted

- ◆ At the same Council meeting a report must be submitted on the Councils Prudential Code & Associated Indicators and should contain as a minimum, the following;
 - ◆ Rates of financing costs to net revenue stream
 - ◆ Net borrowing and the capital financing requirement
 - ◆ Total capital expenditure in each year
 - ◆ Average balance of capital receipts available
 - ◆ Limits in interest rate exposure
 - ◆ Maturing structure of borrowing
 - ◆ Incremental impact of capital investment
 - ◆ Total principal sums invested and limits on long term investment maturities
 - ◆ Minimum Revenue Provision Policy

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

Statutory/Regulation Requirements

Statutory and regulatory requirements relating to Treasury Management are dealt with under TMP1 under the heading “Legal and Regulatory”.

Accounting Practices and Standards

The Council, in addition to all relevant SSAP’s, FRS’s and IAS’s adheres to all practices and standards provided by CIPFA.

Budgets

Budgets are set, prior to the commencement of a financial year, for brokerage fees charged by the Councils Fund Managers and Advisors.

A forecast of interest receipts for the ensuing financial year is prepared prior to its commencement by the Senior Business Partner (Transactional and Regulatory Services). This budget is also revised during the year, to take account of any variations in the amount likely to be received.

Investment categories are individually coded on the Council’s financial information system, in terms of the interest received, principal sums invested and investments recouped. Information is updated on the Financial Information System directly from the bank statements received, by the Bank Reconciliation Officer who is independent of the Treasury Management function.

The Treasury records are reconciled to the information on the financial information system, on a monthly basis. Reconciliation’s are checked independently by the Team Leader (Treasury and Regulatory Services), and signed to signify approval.

External Audit Information Requirements

The "Audit Fraud and Corruption Manual" details system controls which external auditors would wish to see in place for Treasury Management. These are as follows: -

- ◆ Clear written procedures for staff
- ◆ Transactions are regularly reviewed and examined by a senior officer
- ◆ Appropriate access controls exist
- ◆ All cheques/direct credits over a specified amount are checked back to prime documents and countersigned by a senior officer
- ◆ Banks only accept direct transfers to institutions on an approved list
- ◆ Changes to the approved list require counter signature by a senior officer
- ◆ Transfer via a direct terminal link is only allowed when confirmed by a second officer
- ◆ Cheques are despatched independently of the loan officer
- ◆ Discharged certificates are obtained for all bond repayments.
- ◆ Direct confirmation with borrowers or lenders of premiums or discounts on premature repayments.
- ◆ Premium or discount payments are checked for reasonableness.

CASH AND CASH FLOW MANAGEMENT – TMP8

Monitoring of cash flow requirements is carried out using a Cash Flow spreadsheet. The spreadsheet shows all the days of the year, and is broken down into headings of income and expenditure for each working day of the year. This allows a forecast of the consolidated end of day closing balance to be compiled, on which Treasury Management decisions can be based.

This spreadsheet is compiled prior to the commencement of the financial year, and is updated with all cash inflows and outflows which are known (in terms of amounts and the dates they will occur) at the commencement of the financial year. These would include:

- ◆ Precept payments to be made to precepting bodies
- ◆ Contributions to and from the National Non Domestic Rating pool
- ◆ Any other known cash in flows and out flows

In addition to updating this spreadsheet with cash inflows and outflows known at the start of the year, notes are made on the spreadsheet of those transactions, which cannot be quantified, but are known to occur on specific dates. These would include:

- ◆ Council Tax direct debit income
- ◆ National Non-Domestic Rates (NNDR) direct debit income
- ◆ Monthly payroll (and associated) payments

Other income and expenditure is known to occur on a regular basis, and cash flow decisions also take account of these. Examples would include:

- ◆ Accounts Payable (Creditor) Payments (made on each Monday and Thursday from January 2011)
- ◆ Housing Benefits (HBIS) BACS payments (made on each Monday)
- ◆ Other daily income, e.g. from cashiers

The daily forecast cleared closing consolidated balance is compared to the consolidated forecast balance from the Councils direct banking system, in order to give assurance that the system and spreadsheet are taking account of all transactions.

The end of day forecast cleared consolidated balance is the figure which treasury management decisions are based on. Two authorised officers therefore check this figure, independently, for control purposes, where an investment or borrowing decision is to be made.

Daily Procedures

The Business Support Officers (Treasury and Regulatory Services) will perform day to day cash management. The Team Leader (Treasury and Regulatory Services) and the Business Partner (Transactional and Regulatory Services) will provide cover in the absence of any of the aforementioned officers.

It is now required that all designated treasury staff carry out the treasury management daily procedures for 2 individual weeks during the course of the year, to ensure that they are continually up to date with treasury management procedures.

Objective

The objective of the day to day cash management is to ensure that the consolidated balance of the Council's bank accounts is, where possible, kept within its target overnight level of £25,000, whilst adequately meeting the day to day cash requirements of the Council.

However, balances over £1.0m may be retained in the bank account if a maturing investment is being used to cover payments going out within the next week and the total interest lost, by retaining this money, does not exceed £75.00.

Investment/Borrowing Decision Making

Borrowing to meet any shortfall or investing directly with organisations on the approved list can be authorised by the Assistant Director of Resources and Performance (Section 151 Officer), Service Manager – Finance and Performance or Senior Business Partner – Finance and Performance. In the absence of one of the officers above, one of the Business Partners – Finance and Performance can act as Sanctioning Officer with documentation being countersigned by an authorising officer at the earliest opportunity. Longer term borrowing requires Council approval.

With the continuing development of shared services and working across various offices, the required officers are not always available to provide 'hard copy' authorisation. To increase efficiency and ensure treasury activities are carried out in a timely manner, the use of email authorisation is permitted. Copies of the email trail must accompany all deal paperwork in the completed file.

Forecasting the closing balance on the consolidated account

This is reached by obtaining a daily cleared debit/credit balance from the Direct Banking system, and referring to the "CASHFLOW" Spreadsheet for any other significant income/payments.

Bank Statement Procedures

On receipt, bank statements are forwarded to the Accounts section, whereby they are distributed to the appropriate responsible officer.

Payment Scheduling and Agreed Terms with Trade Creditors

Creditor runs, through the creditors system are performed on a weekly basis to provide both BACS and cheque payments.

The Councils general terms are that payment of invoices will be made within 30 days, unless alternative terms are detailed on invoices.

The Treasury Management team is provided with information on the level of creditor payments to be made each week, in time to ensure sufficient funds are available to meet the liability.

Procedure for Banking of Funds

A private security firm carries out the banking of funds.

Procedures for the reconciliation of cash and cheques collected at each location, to those banked, are also in place.

Scheme for the Advancing of Car Loans to Members of Staff

The scheme is intended to assist specified officers with the purchase of a vehicle where it is deemed necessary to have the availability of a vehicle for the performance of his/her duties.

The full Policy can be found on the Corporate Drive and in the Policy Library.

Loans to Parish Councils and External Organisations

More detailed information on the criteria for a loan and the application process can be found in the Council's loan policy.

MONEY LAUNDERING - TMP9

Methodology for Identifying Sources of Deposit

For all investments, managed internally, the Council deals with financial institutions that hold an acceptable Credit Rating as detailed in TMP 1.

This high credit rating gives some assurance that all institutions included on the approved list of organisations for investments are reputable companies.

Methodology for Establishing the Identity/Authenticity of Lenders

In terms of temporary loans, the Council has a policy of only accepting loans from Parish Councils, or occasionally of small amounts from Community Organisations

(subject to such loans not adversely affecting the Authorised Borrowing Limit or the Operational Boundary for Borrowing), where this would benefit the organisation concerned. Any other loans accepted would relate to performance bonds from reputable companies.

The Council currently have no long term borrowings. Should it prove necessary to borrow further, only Brokers included in the Councils approved list would be asked to provide quotations. Written confirmations of all details relevant to any transaction would be required on the Broker's headed paper.

Disaster Recovery Plan

In the event that the offices cannot be accessed or the online banking facility is unavailable, there are contingency arrangements in place to ensure that where possible Treasury Management obligations are met. These emergency contingency arrangements can be found in the Treasury Management Procedures Manual.

TRAINING AND QUALIFICATIONS – TMP10

It is the Councils intention for all the posts detailed in the schedule for TMP5 "Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements" to be occupied.

Should a vacancy for any post be unfilled for any exceptional period of time, then the Code of Practice will be reviewed to assess any likely implications and risks, and so that any necessary amendments may be made and presented to Council for approval.

It is the intention of the Council that staff holding the Posts will be in receipt of adequate training to conduct their duties, either by external courses/seminars, or through internal instruction. A record will be kept of this training.

USE OF EXTERNAL SERVICE PROVIDERS - TMP11

The Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external treasury advisors and/or brokers/fund managers 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 organisation, especially in terms of being objective and free from conflicts of interest.

The Council has a contract with Link Asset Services Ltd for treasury advice, this contract expires 31 March 2018.

The standing orders of the Council state that banking services should be subject to tender every five years. The last tender process was carried out in 2013/14 following which Lloyds Bank PLC was awarded the contract, which commenced on 1 April 2014.

CORPORATE GOVERNANCE – TMP12

Information Available for Public Inspection

The Council will make publicly available information relating to its Treasury Management strategy.

The Council will also make available information relating to the performance of the Treasury Management function in terms of the rate of return received on investments compared to the benchmark seven-day average rate, which is also averaged over a 3 year period.

Consultation with Stakeholders

The Councils main objective is to maximise investment income without compromising its position in terms of risk. This strategy results in little scope for consultation with stakeholders, over what is effectively investment strategy.