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Treasury Management Sub Committee

St Edmundsbury
BOROUGH COUNCIL

Title:	**Agenda**
Date:	**Monday 21 January 2019**
Time:	**10.30 am**
Venue:	**Mayor's Parlour** **West Suffolk House** Western Way Bury St Edmunds
Full Members:	***Chairman*** Sarah Broughton *Conservative Members (3)* Sarah Broughton, Patsy Warby, David Roach
Substitutes:	*Conservative Members (1)* 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.	
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Personal Information:	Any personal information processed by Forest Heath District Council or St Edmundsbury Borough Council arising from a request to speak at a public meeting under the Localism Act 2011, will be protected in accordance with the Data Protection Act 2018. For more information on how we do this and your rights in regards to your personal information and how to access it, visit our website: https://www.westsuffolk.gov.uk/Council/Data_and_information/howweuseinformation.cfm or call Customer Services: 01284 763233 and ask to speak to the Data Protection Officer.	

Agenda

Procedural Matters

Part 1 - Public

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Treasury Management Sub-Committee

St Edmundsbury BOROUGH COUNCIL

Minutes of a meeting of the **Treasury Management Sub-Committee** held on **Monday 19 November 2018** at **10.30 am** at the **Mayor's Parlour, West Suffolk House,** Western Way, Bury St Edmunds IP33 3YU

Present: **Councillors**

Chairman Sarah Broughton

Patricia Warby David Roach

By Invitation:
Ian Houlder, Cabinet Member for Resources and Performance

81. **Substitutes**

There were no substitutes declared.

82. **Apologies for Absence**

There were no apologies for absence received.

83. **Minutes**

The minutes of the meeting held on 16 July 2018, were confirmed as an accurate record and signed by the Chairman.

84. **Public Participation**

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

85. **Mid-Year Treasury Management Report 2018-2019 and Investment Activity (1 April to 30 September 2018)**

The Sub-Committee received Report No: TMS/SE/18/004, which provided a summary of investment activities for the first six months of 2018-2019. The total amount invested at 1 April 2018 was £36.35m and at 30 September 2018 £44.95m. The increase in balances over the period was due primarily to timing differences in respect of collection of local taxes; Council Tax and Non-Domestic Rates; payment of precepts i.e. to Suffolk County Council, Suffolk Police and central government; and changes in the profile of the Capital Programme. The 2018-2019 Annual Treasury Management and Investment Strategy Statements sets out the Council's projections for the current financial year.

The budget for investment income in 2018-2019 was £308,000 which was based on a 0.70% target average rate of return on investments. At the end of September 2018, interest earned during the second quarter amounted to £155,169 (average rate of return 0.688%) against a profiled budget of £154,000 (average rate of return 0.70%), creating a budgetary surplus of £1,169.

The report also included assumptions on borrowing for capital projects included within it. The borrowing was based around four specific projects as per their agreed business cases:

- West Suffolk Operational Hub
- Suffolk Business Park Loan
- Investing in our Growth Fund; and
- Olding Road (DHL Depot)

The report included a summary of the capital borrowing budget for 2018-2019, and a summary of capital borrowing for quarter two – all of which was currently internally borrowed from the Councils overall cash balances. It was reported that at the end of quarter two, there had been no requirement to borrow externally, therefore there was no interest payable in quarter one.

Finally, with the uncertainty still surrounding the Brexit negotiations, the financial markets still remained volatile with low rates of return still being offered by the banks and building societies. The Treasury Team would continue to closely monitor the situation and provide updated information as it became available.

The Sub-Committee scrutinised the investment activity for 1 April to 30 September 2018, and asked questions to which officers duly responded. Members were pleased to see that to date, there had been no requirement to borrow externally, and noted that future reports would include a breakdown of the various projects in the "Investing in Our Growth Fund".

It was then proposed by Councillor David Roach, seconded by Councillor Patricia Warby and with the vote being unanimous, it was

<u>RECOMMENDED:</u>

That subject to the approval of the Joint Executive (Cabinet) Committee and Council the Mid-year Treasury Management Report 2018-2019 (Report No: TMS/SE/18/004), be approved.

86. **Date of Next Meeting**

The Sub-Committee **<u>noted</u>** that the next meeting of the Sub-Committee would be held on Monday 21 January 2019, commencing at 10.30am.

The Meeting concluded at 10.55 am

Signed by:

Chairman

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Treasury Management Sub-Committee

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Treasury Management Report 2018-2019 and Investment Activity (April – December 2018)**	
Report No:	**TMS/SE/19/001**	
Report to and dates:	**Treasury Management Sub-Committee**	21 January 2019
	Performance and Audit Scrutiny Committee	31 January 2019
	Joint Executive (Cabinet) Committee	12 March 2019
	Council	19 March 2019
Portfolio holder:	Councillor Ian Houlder Portfolio Holder for Resources and Performance **Tel:** 01284 810074 **Email**: ian.houlder@stedsbc.gov.uk	
Lead officer:	Gregory Stevenson Service Manager Finance & Performance **Tel:** 01284 757264 **Email:** gregory.stevenson@westsuffolk.gov.uk	
Purpose of report:	To present the Council's Treasury Management Report summarising the investment activities for the period to 31 December 2018.	
Recommendation:	**It is recommended that, the Treasury Management Sub-Committee:** **(1) Notes the Mid-Year Treasury Management Report; and** **(2) Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**	

Key Decision:	*Is this a Key Decision and, if so, under which definition?* No, it is not a Key Decision - ☒
Consultation:	• Treasury management activities are undertaken in consultation with Link Asset Services (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 the Joint Executive (Cabinet) and Council.
Alternative option(s):	• Options for the management of Council investments are formally considered within the annual treasury management and investment strategy. This includes the continuation of in-house management of funds, the use of external brokers and advisors, and the approach to be adopted in establishing the credit worthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review.

Implications:	
*Are there any **financial** implications? If yes, please give details*	Yes ☒ No ☐ • Please refer to main report
*Are there any **staffing** implications? If yes, please give details*	Yes ☐ No ☒
*Are there any **ICT** implications? If yes, please give details*	Yes ☐ No ☒
*Are there any **legal and/or policy** implications? If yes, please give details*	Yes ☒ No ☐ • This report is in-line with the Treasury Management Practice 6, (TMP6), of the Treasury Management Code of Practice.
*Are there any **equality** implications? If yes, please give details*	Yes ☐ No ☒

Risk/opportunity assessment:		*(potential hazards or opportunities affecting corporate, service or project objectives)*	
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 / building society failure resulting in loss of Council funds.	High	Use of Sector 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 Wards	
Background papers:		Annual Treasury Management and Investment Strategy – 2018/19 (COU/SE/18/002) Annual Treasury Management and Investment Strategy Statements (report COU/SE/18/002 approved 20 February 2018)	
Documents attached:		N/A	

1. December Monitoring Report 2018/19

Investment Activity: 1 April to 31 December 2018

1.1.1 The total amount invested at 1 April 2018 was £36.35m and at 31 December 2018 £44.30m. The increase in balances over this period was due primarily to timing differences in respect of the collection of local taxes (Council Tax and Non Domestic Rates), the payment of precepts (i.e. to Suffolk County Council, Suffolk Police and central government) and changes in the profile of the Capital Programme.

1.1.2 The 2018/19 Annual Treasury Management and Investment Strategy Statements (report COU/SE/18/002 approved 20 February 2018) sets out the Council's projections for the current financial year. The budget for investment income in 2018/19 is £308,000 which is based on a 0.70% target average rate of return on investments.

1.1.3 As at the end of December 2018 interest actually earned during the first nine months of the financial year amounted to £255,665 (average rate of return of 0.734%) against a profiled budget for the period of £231,000 (average rate of return of 0.70%); a budgetary surplus of £24,665.

1.1.4 The table below summaries the interest earned and the average rate of return achieved and compares with the LIBOR 3 month average at 31 December 2018.

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	**Total Average Investment**	**Average Rate of Return (%)**	**Interest Earned**
Temporary Investments (Term Deposits)	1,862,610	0.716%	165,239
Bank of Scotland Current Account	3,797,924	0.578%	16,541
Barclays Reserve Account	3,739,424	0.400%	11,269
NatWest Call Account	87,220	0.010%	6
Clydesdale 30 Day Account	81	0.250%	1
Bank of Scotland Base Plus Account	325	0.250%	1
Santander 365 Day Account	8,000,000	1.039%	62,608
Total Overall Average Return on Investments %			**0.734%**
Total Interest Earned - 1 April 2018 to 31 December 2018			**£255,665**
LIBOR 3 month Average			**0.722%**

1.1.5 The table below summarises the investment activities during the period:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2018/19
Opening Balance 01 April 2018	**36,350,000**
Investments made during the year (including transfers to business reserve accounts)	83,200,000
Sub Total	120,050,000
Investments realised during the year (including withdrawals from business reserve accounts)	75,250,000
Closing Balance 31 December 2018	**44,300,000**

1.1.6 The table below shows the list of investments held as at 31 December 2018:

Investments held as at 31 December 2018				
Counterparty	**Principal Amount**	**Interest Rate**	**Date Loaned**	**Date Returned**
Newcastle B/Soc	1,000,000	0.98%	19/03/18	19/03/19
Principality B/Soc	1,000,000	0.78%	11/07/18	22/02/19
Principality B/Soc	1,000,000	0.78%	16/07/18	18/12/19
National Counties B/Soc	2,500,000	0.88%	01/08/18	15/02/19
Coventry B/Soc	3,000,000	0.81%	15/08/18	19/03/19
Nottingham B/Soc	3,000,000	0.86%	03/09/18	04/03/19
Leeds B/Soc	2,000,000	0.82%	26/09/18	19/02/19
Leeds B/Soc	1,000,000	0.85%	03/10/18	15/03/19
Yorkshire B/Soc	1,000,000	0.76%	01/11/18	04/02/19
Yorkshire B/Soc	1,000,000	0.78%	01/11/18	19/02/19
Yorkshire B/Soc	2,000,000	0.75%	01/11/18	15/01/19
Coventry B/Soc	2,000,000	0.77%	01/11/18	18/03/19
Nottingham B/Soc	1,000,000	0.80%	03/12/18	11/03/19
National Counties B/Soc	2,000,000	0.75%	03/12/18	21/01/19
Newcastle B/Soc	2,000,000	0.67%	03/12/18	21/01/19
Principality B/Soc	1,500,000	0.99%	21/12/18	21/06/19
Santander 365 Day	8,000,000	1.15%	365 day	notice
Bank of Scotland C/A	8,300,000	0.65%	Call	
Barclays Reserve	950,000	0.50%	Call	
NatWest Call Account	50,000	0.015%	Call	
TOTAL	**44,300,000**			

1.1.7 The table below shows a summary of the funds held as at 31 December 2018, the Budget and Council Tax 2018/19 (report COU/SE/18/004 approved 20 February 2018) report shows the planned spending profile for these reserves/balances across the medium term financial period:

SUMMARY OF FUNDS HELD*	
Fund	**£**
Earmarked Revenue Reserves	22,305,723
Capital Receipts Reserves	16,965,564
General Funds Reserve	3,035,724
Cashflow Balances	1,992,899
Total Value of Investments	**£44,300,000**

*Further details of funds held by the Council can be found in the Quarterly Budget Outturn Reports presented to Performance and Audit Scrutiny Committee.

2. Borrowing and Capital Costs

2.1.1 The 2018/19 Budget has, for the first time, assumptions on borrowing for capital projects included within it. This borrowing was based around four specific projects:

- West Suffolk Operational Hub
- Suffolk Business Park Loan
- Investing in our Growth Fund
- Olding Road (DHL Depot)

The detail on these Budgets is laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2018/19			
Project	**External Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
West Suffolk Operational Hub	£5,550,000	£0	£0
Suffolk Business Park Loan	£3,000,000	£0	£0
Investing in our Growth Fund	£20,000,000	£600,000	£412,500
Olding Road DHL Depot	£0	£197,750	£128,250
Total Value of Investments	**£28,550,000**	**£797,750**	**£540,750**

The position on each of these projects for the full year of 2018/19 is forecast as below:

SUMMARY OF CAPITAL BORROWING Q3 FORECAST 2018/19				
Project	**External Borrowing**	**Use of Available Revenue Reserves** (in place of External Borrowing)	**Minimum Revenue Provision (MRP)**	**Interest Payable**
West Suffolk Operational Hub	£0	£892,900	£0	£0
Suffolk Business Park Loan	£0	£0	£0	£0
Investing in our Growth Fund	£0	£1,955,000	£48,839	£0
Olding Road DHL Depot	£0	£0	£193,672	£0
Total Value of Investments	**£0**	**£2,847,900**	**£242,511**	**£0**

2.1.2 This forecast position has moved due to the following reasons:

- Suffolk Business Park Loan facility no longer being required.
- £1.955m of the Growth Fund being invested in 20 High Street Haverhill which did not require external borrowing
- Lack of suitable investment opportunities for the investing in our growth fund
- The purchase of Olding Road DHL Depot did not require external borrowing.

The impact of these changes is a reduction in forecast Interest Payable of £540,750 in 2018/19.

2.1.3 As opportunities for growth fund investment arise the borrowing and MRP position will be reviewed as each business case is developed.

2.1.4 As at the end of Quarter 3 there has been no requirement to borrow externally. Therefore there is no interest payable.

3. Other Market Considerations

3.1.1 With uncertainty still surrounding the Brexit negotiations, the financial markets still remain volatile with low rates of return still being offered by the banks and building societies. The treasury team will continue to closely monitor the situation and provide undated information as it becomes available.

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Treasury Management Sub-Committee

St Edmundsbury BOROUGH COUNCIL

Title of Report:	**Treasury Management Strategy Statement 2019-2020 and Treasury Management Code of Practice**	
Report No:	**TMS/SE/19/002**	
Report to and date/s:	**Treasury Management Sub-Committee**	21 January 2019
	Performance and Audit Scrutiny Committee	31 January 2019
	Shadow Executive (Cabinet)	5 February 2019
	Shadow Council	19 February 2019
Portfolio holder:	Councillor Ian Houlder Portfolio Holder for Resources and Performance **Tel:** 01284 810074 **Email**: ian.houlder@stedsbc.gov.uk	
Lead officer:	Greg Stevenson Service Manager - Finance & Performance **Tel:** 01284 757264 **Email:** Gregory.stevenson@westsuffolk.gov.uk f	
Purpose of report:	To seek approval of Treasury Management Strategy Statement (including Treasury related Prudential Indicators) and Treasury Management Code of Practice.	
Recommendation:	**The Treasury Management Sub-Committee is asked to:** **(1) Make recommendations to Shadow Executive (Cabinet) and Shadow Council regarding the approval of the Treasury Management Strategy Statement 2019-2020 (as set out in Appendix 1); and** **(2) Make recommendations to Shadow Executive (Cabinet) and Shadow Council regarding the approval of the Treasury Management Code of Practice (as set out in Appendix 2).**	

Key Decision:	*Is this a Key Decision and, if so, under which definition?* No, it is not a Key Decision - ☒
Consultation:	• Treasury management activities are currently undertaken in consultation with Arlingclose Ltd, (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):	• Options for the management of Council investments are formally considered within the Annual Treasury Management Strategy Statement.
Implications:	
*Are there any **financial** implications? If yes, please give details*	Yes ☒ No ☐ • Total budgeted interest receipts from investments, included in the MTFS, for 2019/20 is £142k* • Total budgeted interest payable on loans, included in the MTFS, for 2019/20 is £682k* *Please note, these figures are provisional budget figures and may be subject to change during the budget setting approval process.
*Are there any **staffing** implications? If yes, please give details*	Yes ☐ No ☒
*Are there any **ICT** implications? If yes, please give details*	Yes ☐ No ☒
*Are there any **legal and/or policy** implications? If yes, please give details*	Yes ☐ No ☒
*Are there any **equality** implications? If yes, please give details*	Yes ☐ No ☒

Risk/opportunity assessment:		*(potential hazards or opportunities affecting corporate, service or project objectives)*	
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 Arlingclose 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 Wards	
Background papers: *(all background papers are to be published on the website and a link included)*		SEBC Treasury management Code of Practice 2018-2019 (TMS.SE.18.002) SEBC Treasury Mgt Policy Statement Investment Strategy 2018-19 (TMS.SE.18.002) FHDC Treasury Mgt Policy Statement Investment Strategy 2018-19 (PAS.FH.18.009) FHDC Credit Rating Definitions (PAS.FH.18.009) FHDC Treasury Management Code of Practice 2018 (PAS.FH.18.009) FHDC List of Approved Organisations for Investments 2018-19 (PAS.FH.18.009)	
Documents attached:		**Appendix 1 – Treasury Management Strategy Statement 2019/2020** **Appendix 2 – Treasury Management Code of Practice 2019/2020**	

1. Key issues and reasons for recommendation(s)

1.1 Treasury Management Strategy Statement

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.

2. Additional supporting information

2.1 Treasury Advisors

2.1.1 Following a procurement exercise, Arlingclose Ltd, have been appointed as treasury advisors to West Suffolk Council.

2.1.2 The Treasury Management Strategy Statement & Code of Practice have been compiled in line with advice from Arlingclose.

2.2 Counterparty Ratings

2.2.1 The Council uses the Arlingclose credit rating method in conjunction with information available from other industry sources to identify suitable counterparties for investments.

2.2.2 **Approved investment counterparties and limits**

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6m 5 years	£12m 20 years	£12m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 15 years
AA	£6m 4 years	£10m 5 years	£10m 15 years
AA-	£6m 3 years	£10m 4 years	£10m 10 years

A+	£6m 2 years	£8m 3 years	£8m 5 years
A	£6m 13 months	£8m 2 years	£8m 5 years
A-	£6m 6 months	£6m 13 months	£6m 5 years
None	£1m 6 months	n/a	£1m 5 years
UK Government	£Unlimited, 50 Years		
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12m, 5 years Silver - £10m, 5 years Bronze - £8m, 5 years		

3. Interest Rate Projections

3.1 The following table shows the revised interest rate based on the current economic climate.

	Previous Strategy	New Strategy
2019/20	0.90%	0.90%
2020/21	1.25%	1.00%
2021/22	1.50%	1.10%
		1.25%

Projections have been revised down due to slower interest rate rises than originally predicted by the Bank of England and re-profiling of the Council’s capital programme.

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WEST SUFFOLK COUNCIL

Treasury Management Strategy Statement 2019/20

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit (non-treasury investments) are considered in a different report, the Investment Strategy, which is approved by Council and is available on our website.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The October 2018 labour market data showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity *(at the time of writing this commentary).* As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed new long-term loans will be borrowed at a rate between 2.75%-3% and that new investments will be made at an average rate as follows:

- 2019/20 – 0.90%
- 2020/21 – 1.00%
- 2021/22 – 1.10%
- 2022/23 – 1.25%

Local Context

On 31st December 2018, the Authority held £4m of borrowing and £64.1m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Approved Budget £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Capital Financing Requirement (CFR)	**8.3**	**65.7**	**24.4**	**77.9**	**77.1**	**76.4**
Less: External borrowing*	4	4	4	4	4	4
Internal (over) borrowing	**4.3**	**61.7**	**20.4**	**73.9**	**73.1**	**72.4**
Less: Usable reserves	-50.9	-41.94	-31.09	-21.97	-18.08	-19.37
Less: Working capital**	-8.8	-8.8	-8.8	-8.8	-8.8	-8.8
Investments (or New borrowing)	**-55.4**	**10.9**	**-19.5**	**43.1**	**46.2**	**44.2**

*shows only loans to which the Authority is committed and excludes optional refinancing
**assumes working capital remains consistent

Please note, these figures are provisional budget figures and may be subject to change during the budget setting approval process.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to its capital programme. Consequently, investments are forecast to fall to approx. £10m in year as capital receipts and revenue reserves are used to finance that capital expenditure and to finance the revenue budget.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £6m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.18 Actual £m	31.3.19 Approved Budget £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Capital Financing Requirement (CFR)	**8.3**	**65.7**	**24.4**	**77.9**	**77.1**	**76.4**
Less: Usable reserves	-50.9	-41.94	-31.09	-21.97	-18.08	-19.37
Less: Working capital	-8.8	-8.8	-8.8	-8.8	-8.8	-8.8
Plus: Minimum investments	6	6	6	6	6	6
Liability Benchmark	**-45.4**	**20.9**	**-9.5**	**53.1**	**56.2**	**54.2**

Borrowing Strategy

The Authority currently holds a £4million loan, consistent with the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to externally borrow around £43m in 2019/20. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £70.7 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Suffolk County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the commercial loan market but it continues to investigate other sources of finance, such as local authority loans and PWLB loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Lender's Option Borrower's Option Loans (LOBOs): The Authority entered into a 70year £4m LOBO loan on 31 March 2008, where the lender had the option to propose an increase in the interest rate at set dates, following which the Authority had the option to either accept the new rate or repay the loan at no additional cost. However, in 2016/17 Barclays wrote to the council confirming their decision to waive their right to change the applicable interest rate of this loan, effectively changing this loan to a fixed rate loan.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority currently holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £52.4m and £66.3m. During 2019/20 and in future years, due to the Authority's Capital Programme, these levels are expected to fall dramatically.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2019/20 (further details in the Approved counterparties section below). This is especially the case for the Authority's surplus cash currently invested in short-term unsecured bank/building society deposits. This diversification will represent a change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6m 5 years	£12m 20 years	£12m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 15 years
AA	£6m 4 years	£10m 5 years	£10m 15 years
AA-	£6m 3 years	£10m 4 years	£10m 10 years
A+	£6m 2 years	£8m 3 years	£8m 5 years
A	£6m 13 months	£8m 2 years	£8m 5 years
A-	£6m 6 months	£6m 13 months	£6m 5 years
None	£1m 6 months	n/a	£1m 5 years

UK Government	£Unlimited, 50 Years
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12m, 5 years Silver - £10m, 5 years Bronze - £8m, 5 years

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

UK Government: Loans, bonds and bills issued or guaranteed by government. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be nearly £30 million on 31st March 2019. In order that no more than 40% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£3m per country
Unsecured investments with building societies	£6m in total
Money market funds	£12m in total

Liquidity management: The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management related Prudential Indicators

The Authority'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.

	2018/19 Approved	**2018/19 Revised**	**2019/20 Budget**	**2020/21 Budget**	**2021/22 Budget**
	£,000	**£,000**	**£,000**	**£,000**	**£,000**
Authorised limit for external debt					
Borrowing	77,653	59,392	70,693	70,693	70,693
Other long term liabilities	0	0	0	0	0
TOTAL	77,653	59,392	70,693	70,693	70,693
Operational boundary for external debt					
Borrowing	69,888	53,453	63,623	63,623	63,623
Other long term liabilities	0	0	0	0	0
TOTAL	69,888	53,453	63,623	63,623	63,623
Maturity Structure of Borrowing	**%**	**%**	**%**	**%**	**%**
Upper Limit for % of borrowing maturing in:					
• Under 12 Months	20%	20%	20%	20%	20%
• 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 total principal sums invested	20,000	20,000	10,000	6,000	3,000

for over 364 days (per maturity date)					

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2019/20 is £142k, based on an average investment portfolio of £15.7million at an interest rate of 0.90%. The budget for debt interest paid in 2019/20 is £682k. Please note, these figures are provisional budget figures and may be subject to change during the budget setting approval process.

If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Position

West Suffolk (Forest Heath & St Edmundsbury combined) Investments held as at 31 December 2018				
Counterparty	**Principal Amount**	**Interest Rate**	**Date Loaned**	**Date Returned**
Newcastle B/Soc	1,000,000	0.98%	19/03/2018	19/03/2019
Newcastle B/Soc	1,500,000	0.80%	18/06/2018	19/03/2019
Newcastle B/Soc	1,000,000	0.77%	25/06/2018	21/01/2019
Principality B/Soc	1,000,000	0.78%	11/07/2018	22/02/2019
Nationwide B/Soc	2,500,000	0.68%	13/07/2018	02/01/2019
Principality B/Soc	1,000,000	0.78%	16/07/2018	18/12/2019
National Counties B/Soc	2,500,000	0.88%	01/08/2018	15/02/2019
Nottingham B/Soc	1,000,000	0.85%	01/08/2018	15/02/2019
Coventry B/Soc	3,000,000	0.81%	15/08/2018	19/03/2019
Leeds B/Soc	1,500,000	0.77%	15/08/2018	22/03/2019
Nottingham B/Soc	3,000,000	0.86%	03/09/2018	04/03/2019
Leeds B/Soc	2,000,000	0.82%	26/09/2018	19/02/2019
Leeds B/Soc	1,000,000	0.85%	03/10/2018	15/03/2019
Leeds B/Soc	1,000,000	0.81%	15/10/2018	22/02/2019
Principality B/Soc	1,500,000	0.75%	29/10/2018	21/01/2019
Yorkshire B/Soc	1,000,000	0.76%	01/11/2018	04/02/2019
Yorkshire B/Soc	1,000,000	0.78%	01/11/2018	19/02/2019
Yorkshire B/Soc	2,000,000	0.75%	01/11/2018	15/01/2019
Coventry B/Soc	2,000,000	0.77%	01/11/2018	18/03/2019
Yorkshire B/Soc	1,000,000	0.78%	01/11/2018	19/02/2019
Principality B/Soc	1,000,000	0.76%	01/11/2018	19/02/2019
Coventry B/Soc	1,000,000	0.67%	15/11/2018	11/02/2019
Nottingham B/Soc	1,000,000	0.80%	03/12/2018	11/03/2019
National Counties B/Soc	2,000,000	0.75%	03/12/2018	21/01/2019
Newcastle B/Soc	2,000,000	0.67%	03/12/2018	21/01/2019
Yorkshire B/Soc	1,500,000	0.77%	03/12/2018	11/03/2019
Principality B/Soc	1,500,000	0.99%	21/12/2018	21/06/2019
Santander 365 Day	8,000,000	1.15%	365 day	notice
Santander 180 Day	1,000,000	0.95%	180 day	notice
Lloyds 95 Day Account	2,400,000	0.80%	95 day	notice
Santander 95 Day	500,000	0.85%	95 day	notice
Bank of Scotland C/A	8,300,000	0.65%	Call	
Barclays FIBCA *plus 0.1% annual bonus if average annual balance is over £1m	2,350,000	0.50%*	Call	
NatWest LSA	50,000	0.015%	Call	
TOTAL	**64,100,000**			

West Suffolk (Forest Heath & St Edmundsbury combined) External Borrowing (Debt) as at 31 December 2018				
Counterparty	**Principal Amount**	**Interest Rate**	**Date Loaned**	**Date Returned**
Barclays Bank Plc	4,000,000	4.24%	31/03/2018	31/03/2078

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West Suffolk Council

Treasury Management

Code of Practice

To be approved at Shadow Council on 19 February 2019

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. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

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 if 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 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, the Council invests 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.

The 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.

The 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 and Investment Strategies are held as separate documents and are available on our website.

SUPPORTING SCHEDULES TO THE TREASURY MANAGEMENT PRACTICES (TMPs)

RISK MANAGEMENT (TMP1)

CREDIT AND COUNTERPARTY POLICIES RISK MANAGEMENT – TMP1(1)

The Authority currently holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £52.4m and £66.3m. During 2019/20 and in future years, due to the Authority's Capital Programme, these levels are expected to fall dramatically.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2019/20 (further details in the Approved counterparties section below). This is especially the case for the Authority's surplus cash currently invested in short-term unsecured bank/building society deposits. This diversification will represent a change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6m 5 years	£12m 20 years	£12m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 15 years

AA	£6m 4 years	£10m 5 years	£10m 15 years
AA-	£6m 3 years	£10m 4 years	£10m 10 years
A+	£6m 2 years	£8m 3 years	£8m 5 years
A	£6m 13 months	£8m 2 years	£8m 5 years
A-	£63m 6 months	£6m 13 months	£6m 5 years
None	£1m 6 months	n/a	£1m 5 years
UK Government	£Unlimited, 50 Years		
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12m, 5 years Silver - £10m, 5 years Bronze - £8m, 5 years		

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

UK Government: Loans, bonds and bills issued or guaranteed by government. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be nearly £30 million on 31st March 2019. In order that no more than 40% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£3m per country
Unsecured investments with building societies	£6m in total
Money market funds	£12m in total

LIQUIDITY RISK MANAGEMENT - TMP1(2)

Liquidity management

The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

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 £50k to £1m. However, balances over £1m may be retained in the Council's current account to be used to cover payments going out provided the limit is not exceed for more than five consecutive, working days.

- 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 £50.00 on that one investment. However, the counterparty in question must be willing to accept the two investments as one CHAPS payment.

- At least £2m 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 holds instant access / call accounts with the following banks:

- Lloyds/Bank of Scotland
- Barclays
- 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 Council's 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 Councils 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 TMP1 (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 Councils 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 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: -

Assistant Director - 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.

Methodology Applied to Evaluate the Impact of Treasury Management Decisions

The Council invests its funds in fixed term deposits, bonds, pooled funds and with other Local Authorities, a proportion of which are short term (to meet cash flow requirements) and the remaining 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

A monthly statement is produced, for each of the Councils investment categories, showing the average rate of return for each category, this is compared to/monitored against the target interest rate projection.

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.

Benchmarking of the Council's return is also undertaken via our advisors Arlingclose.

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 2019/20 are being considered and will be reported to Council as part of the Prudential Code update.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Suffolk County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Processes/Records to be Held

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

Complete a quotation sheet, three quotes for suitable counterparties to be obtained. Recommendation to be signed off by the Assistant Director - Resources and Performance or duly authorised Officer.

Enter the full details into the Treasury Investment spreadsheet.

The amount of the loan/investment must also be entered on the cash flow spreadsheet, if it is for a fixed term, also enter the amount as a receipt in the cash flow spreadsheet on the maturity date.

When the counterparty's confirmation note is received, check the details with the Treasury Investment spreadsheet.

All documentation relating the transaction must be scanned into the appropriate folder and paper copies filed accordingly.

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 Assistant Director (Resources & Performance) (Section 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 / Deputy Section 151 Officer / Senior Business Partner (Transactional and Regulatory Services) 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.

Bankers

The Councils 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:-

- Assistant Director - Resources and Performance (Section 151 Officer)
- Deputy Section 151 Officer
- Senior Business Partner (Transactional 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.

It is essential to ensure that when selecting these organisations from the approved list, the investment limits of the organisations 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)
- 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 £50k, whilst adequately meeting the day to day cash requirements of the Council.

However, balances over £1m may be retained in the bank account to be used to cover payments going out provided the limit is not exceed for more than five consecutive, working days.

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 (Deputy Section 151 Officer) – Finance and Performance or Senior Business Partner – Planning, Performance & Control or Transactional & Regulatory Service. In the absence of one of the officers above, one of the Business Partners – Planning, Performance & Control or Transactional & Regulatory Services can act as Sanctioning Officer with the documentation being countersigned by an authorising officer at the earliest opportunity. Longer term borrowing requires Council approval.

With increased working over multiple sites, 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 bi-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 has £4m of 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 Arlingclose Ltd for treasury advice, this contract expires 31 March 2020.

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.

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.

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