

Forest Heath & St Edmundsbury councils



# **FOREST HEATH DISTRICT COUNCIL**

# **Treasury Management**

# **Code of Practice**

To be approved at Council on 27 February 2015

**SECTION 1****INTRODUCTION**

This Code for Treasury Management within the Authority is based on the 2011 Fully Revised Code recommended nationally by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code also incorporates revisions introduced by CIPFA in its document "Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes" ("the Code"). CIPFA is the leading professional accountancy body for the public services in the United Kingdom and a Member of the Consultative Committee of Accountancy Bodies. Its Members specialise in Public Sector Financial Management and Accountancy, and it includes among its Members the Chief Financial Officers of most Local Authorities in England, Wales and Scotland.

Adherence to the principles of this Code should ensure that Treasury Management within the authority is adequately controlled, and carried out in accordance with professional guidance of best practice.

The Institute recommends the Council to adopt this Code for Treasury Management in the Authority.

**DEFINITION OF THE CODE**

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

"The management of the Local Authority's 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."

**SECTION 2****PURPOSE OF THE CIPFA CODE**

The objectives of the CIPFA Code are:-

- 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 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.

The purpose of the CIPFA code is to give guidance and advice on such matters as:-

- Risk Management.
- Performance Management.
- Decision making and analysis.
- Approved instruments, methods and techniques.
- Organisation, clarity and segregation of responsibilities and dealing arrangements.
- Reporting requirement and management information arrangements.
- Budget, accounting and reporting arrangements.
- Cash and cash flow management.
- Money laundering.
- Training and qualifications.
- Use of external service providers.
- Corporate Governance.

In preparing this Code, and any subsequent amendments recommended to the Council, the Section 151 Officer or Deputy Section 151 Officer shall consider and include, as appropriate, any of the issues referred to in the Guide.

**SECTION 3****REQUIREMENT FOR THE OPERATION OF THE CODE**

The Council's Terms of Reference and delegation to its Committees, and Officers shall provide for the items as detailed in the schedule to TMP 5, Organisation, Clarity and segregation of responsibilities and dealing arrangements.

The Terms of Reference for Cabinet shall provide as follows:-

1. Supervision, management and administration of budgets, expenditure/income control, borrowing, investments, insurance, banking, internal and external auditors, estimates and supplementary estimates in accordance with the Council's Standing Orders and Financial Regulations.
2. In respect of borrowing and investments, the Council shall adopt and maintain a Treasury Policy Statement, setting out its strategy and procedures on Treasury Management. The Council has adopted the CIPFA 'Code for Treasury Management in Local Authorities' as the basis of the Council's formal Code of Practice on Treasury Management.

The Financial Regulations of the Council shall provide as follows:-

1. A Treasury Policy Statement and key recommendations, based upon CIPFA's 'Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes' (the CIPFA Code) shall be adopted by the Council. The Section 151 Officer or Deputy Section 151 Officer shall advise the Council immediately of any significant amendment of the CIPFA Code and any consequent or necessary amendment of the Treasury Policy Statement.
2. All monies held by the Council shall be aggregated for the purposes of treasury management and shall be under the control of the Section 151 officer, as designated for the purposes of the Local Government Act 1972.
3. The Council shall create and maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the organisations will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Council's Treasury Management Practices are detailed in the schedules to the TMPs.
4. The content of this policy statement and TMPs will, wherever practicable, follow the recommendations contained in the CIPFA Code. Any deviation from the Code, for practical purposes, will not result in a material deviation from the Code's key recommendations.
5. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the ensuing financial year, and an annual report after its close, in the form prescribed in its TMPs.
6. This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the

### **APPENDIX 3**

Council and for the execution and administration of treasury management decisions to the Section 151 Officer or Deputy Section 151 Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

7. Any trust fund shall, if possible, be in the name of the Council and any deeds relating to such funds shall be deposited with the Chief Executive for safekeeping, unless the deeds provide otherwise.
8. The Section 151 Officer or Deputy Section 151 Officer is given authority to deal with any emergency situation that may arise in relation to any matters not already delegated within the Treasury Management Policy.

The delegation to the Section 151 Officer or Deputy Section 151 Officer under the Cabinet shall provide as follows:-

1. To manage the Council's loan debt and to raise and repay loans, together with other appropriate instruments, to give effect to the borrowing limits in accordance with the Local Government Act 2003 (which requires local authorities to have regard to the CIPFA Prudential Code) and any other relevant controls imposed by Central Government.
2. Subject to the Council's Financial Regulations, to undertake all investment transactions including the management of the External Investment Fund in liaison with any Fund Managers appointed by the Council, and within the investment policy determined by the Council.

The Section 151 Officer or Deputy Section 151 Officer is required to report any amendments to this Code and to obtain any necessary resolutions of the Council pertaining to Treasury Management. Where there is any material departure from the CIPFA Code the Section 151 Officer or Deputy Section 151 Officer shall clearly advise the Council of such departure.

**SECTION 4****THE TREASURY MANAGEMENT POLICY STATEMENT**

The principal legislation governing Treasury Policy matters is the Local Government Act 2003. The Act requires the Council to determine several fundamental items of financial policy on an annual basis for the ensuing year including the Treasury Management strategy.

The Council defines its treasury management activities as:

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

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

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

**SECTION 5****TREASURY MANAGEMENT PRACTICES****Index of 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**

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: Credit and counterparty risk is 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 regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore

maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

## 2. **Liquidity Risk Management**

*Definition: This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the 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.

## 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. **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.

At present the Council is not involved in any Private Finance Initiatives.

## 6. **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.

## 7. **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.

## **8. Market 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.

## **9. Inflation Risk Management**

*Definition: The uncertainty over the future real value (after inflation) of your investment.*

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.

## **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**

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

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

This organisation 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 Treasury Management Procedural Notes.

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, Cabinet 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 within 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 on 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. The information made available under present arrangements is detailed in the schedule to this document.

### **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.

### **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 within 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

### **APPENDIX 3**

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.

#### **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.

**SECTION 6****SUPPORTING SCHEDULES TO THE TREASURY MANAGEMENT PRACTICES (TMPs)****RISK MANAGEMENT (TMP1)****CREDIT AND COUNTERPARTY POLICIES RISK MANAGEMENT – TMP1(1)****Criteria for Creating/Managing Approved Counter Party Lists for Investments**

The Councils Approved list of Organisations For Investments is detailed in Appendix A to this Code of Practice.

The list will consist only of organisations/institutions that meet the following criteria:

<u>Institution</u>	<u>Credit Rating Short Term (Fitch Moody's)</u>	<u>Credit Rating Long Term (Fitch Moody's)</u>	<u>CDCM Maximum Investment</u>	<u>Internally Managed Maximum Investment</u>	<u>Aggregated Maximum Investment per Institution</u>
	<u>S&amp;P)</u>	<u>S&amp;P)</u>	£M	£M	£M
UK Clearing Banks (Lloyds/Bank of Scotland)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	6 (7)	2 (3)	8 (10)
UK Building Societies (The Top 10 & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2	6
UK Building Societies (from Top 11 downwards & £1bn Assets)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1	5
UK Clearing Bank Subsidiaries	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	2	6
Other UK Banks (with links to overseas banks)	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	4	1	5
Overseas Banks	F1+, F1 or F2 P1 or P2 AAA, AA, or A	AAA to BBB* Aaa to Baa2* AAA to BBB*	3	0	3
Local Authorities	N/A	N/A	7	3	10
Debt Management Office	N/A	N/A	Unlimited	Unlimited	Unlimited

\* The Head of Resources and Performance will consult with the Portfolio Holder for Resources, Performance and Governance before an investment is made with a BBB+ or a BBB rated institution.

Where banks or building societies are part of a merged group structure (jointly owned) the limits apply to the group as a whole not separately to individual banks.

## **APPENDIX 3**

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

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

If the use of the credit ratings from these 3 credit agencies show inconsistencies or questions, the Council will layer on top an assessment of Credit Default Swaps prices (a financial derivative product that is a type of insurance against default) to determine overall counterparty strength.

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

### **Investment Liquidity - Longer Term Investments**

The following longer term investment restrictions will apply:-

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

On any day:

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

### **Change of Limits for Amounts Invested**

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

The investment limits are currently applicable to all investments made through the Council's External Fund Managers, which, when aggregated with other internally managed temporary investments, gives a maximum investment amount for the Council for each group of organisations.

### **Specified and Unspecified Investments**

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

The definitions of specified and unspecified investments are shown below:



## Specified Investments

An investment is a specified investment if all of the following apply:

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

An institution is deemed to have a high credit quality if it holds a short term credit rating of at least one of the following:

Fitch	F2 or better
Standard & Poor's	A or better
Moody's	P2 or better
Building Societies	£1bn assets or more (consideration will also be given to their credit rating, if one is available, in line with the criteria above)

## Unspecified Investments

An unspecified investment is any other investment that does not meet the definition of a specified investment. Basically these are investments with maturity dates greater than 1 year, or where no credit ratings have been awarded to the organisations concerned.

The Council will not make unspecified investments unless the institution holds a long term credit rating of at least one of the following:

Fitch	BBB or better*
Standard & Poor's	Baa2 or better*
Moody's	BBB or better*
Building Societies	£1bn assets or more (consideration will also be given to their credit rating, if one is available, in line with the criteria above)

\* The Head of Resources and Performance will consult with the Portfolio Holder for Resources, Performance and Governance before an investment is made with any counterparty that falls outside of this criteria but is considered suitable.

## **Evidence of the Council's Powers to Deal with Counterparties**

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

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

## **LIQUIDITY RISK MANAGEMENT - TMP1(2)**

### **Approved Minimum Cash Balances and Short Term Investments**

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

- ◆ Daily treasury management procedures will aim to maintain a forecast consolidated balance in the region of £25k to £500k. However, balances over £500K may be retained in the bank account if a maturing investment is being used to cover payments going out within the next week and the total interest lost, by retaining this money, does not exceed £50.00.
- ◆ If two internally managed investments are being placed on the same day with different maturity dates, one counterparty may be used for the two investments even if the investment % rate offered on one of the investments is not the highest rate and the subsequent loss of interest incurred does not exceed the pre-set limit of £50 on that one investment. However, the counterparty in question must be willing to accept the two investments as one CHAPS payment.
- ◆ At least £1M of short-term investments will be retained by the Council to meet cash flow requirements. Whilst this is a recommended minimum, the Council does have access to a £500k overdraft facility for any unexpected short term borrowing.

This is to ensure that: -

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

### **Standby Facilities/Call Accounts**

The Council also has accounts with the Bank of Scotland (Corporate Instant Access Account), Barclays (Fixed Interest Bearing Current Account) and NatWest (Liquidity Select Account) where up to £2M can be invested with each.

### **Overdraft Arrangements**

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

*The Bank also operates a **Daylight Exposure Limit** (also known as the Settlement Risk Exposure), which allows the consolidated bank accounts can be overdrawn during the course of the working day; the limit is set at £25M. The daylight exposure limit is intended to cover any crossover periods during the day when large payments have to*

*be made from the Council's bank accounts, but the expected credits may not be received until later in the day.*

*The daylight exposure limit only covers CHAPS payments.*

### **Short & Long Term Borrowing Facilities**

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

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

### **INTEREST RATE RISK MANAGEMENT – TMP1(3)**

Interest rate risk management is not applicable to the Councils internally managed investments, which are utilised to meet cash flow requirements.

Interest rate risk management on the Councils other investments is currently carried out by the Council's External Fund Managers and / or Advisors, who balance the portfolio of investments they deal with, to take account of their views on interest rate movements.

### **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 fund managers which will enable it to assess any potential risks arising and to take any necessary action.

### **REFINANCING RISK MANAGEMENT - TMP1(5)**

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(6)**

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(7)**

### **Fraud and Error**

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

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

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

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

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

### **Shortfall of Funds**

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

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

The Council has access to a £500k overdraft with its current bankers and interest on this account would be charged at 2% above base rate.

### **Insurance**

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

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

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

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

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

### **MARKET RISK MANAGEMENT - TMP1(8)**

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

### **Inflation Risk Management TMP 1 (9)**

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.

### **Methodology Applied To Evaluate The Impact Of Treasury Management Decisions**

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

### **Political Risks And The Management Thereof**

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

## **POLICY ON METHODS FOR TESTING PERFORMANCE MEASUREMENT IN TREASURY MANAGEMENT – TMP2**

### **Frequency and Processes for Tendering**

Under normal circumstances the Council will use two external organisations in relation to treasury management, these being its bankers and Fund Managers (who advise on investments).

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

Tradition, City Deposit Cash Managers (CDCM) were appointed as the Council's external fund manager (in terms of advising in the investment of surplus funds) in 1997. A quotation exercise in 2012/13 resulted in them being appointed again on a 3 year contract until the end 2014/15, this was approved by Corporate Services Committee 18 January 2012.

CDCM's performance will be reported in the Annual Report and the Monitoring Report.

### **Performance Measurement of Treasury Management Activities**

Overall the main benchmark for the rate of return on the Council's investments is the seven-day average rate calculated over the last 3 years, for Local Authority Deposits. This rate of return is also used as a performance indicator and as such is recorded on Covalent, the Council's performance management system.

A quarterly statement is produced, for each of the Council's investment categories, showing the average rate of return for each category compared to the seven-day average rate. A comparison can be made between the performance of each investment category, which also provides a useful measure of the rate of return on those investments made through the Council's External Fund Managers.

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

## **DECISION MAKING AND ANALYSIS - TMP3**

### **Funding**

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

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

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

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

### **Borrowing**

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

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

### **Policy on Interest Rate Exposure**

The Policy on interest rate exposure is now dealt with through the Prudential Code in accordance with the Local Government Act 2003. The limits that are being recommended to Council for 2015/16 are being considered and will be reported to Council as part of the Prudential Code update.

### **Processes/Records to be Held**

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

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

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

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

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

## **List of Approved Methods of Raising Capital Finance**

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

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

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

## **List of Approved Sources of Borrowing**

### LONG TERM BORROWING SOURCES OF FINANCE

- ◆ Public Works Loan Board (PWLB)  
The main source of longer term borrowing for many Local Authorities has been from the Government through the Public Works Loan Board.
- ◆ Money Market Loans - Long Term  
Loans from the money markets do not usually match the lowest rates available from the PWLB. However this is not always the case especially for loans up to 5 years where money market loans may be more advantageous.
- ◆ Local Bonds  
The issue of local bonds enables members of the public to invest in Local Authorities.
- ◆ Negotiable Bonds  
These are issued by a broker on behalf of a Local Authority. Each issue has to be authorised by the Bank of England.



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

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

- ◆ Overdraft  
Overdraft arrangements have been arranged with the Council's bankers with a Limit of £500k. Interest will be charged at 2% per annum above the Bank's Base Rate.
- ◆ Money Market Loans - Short Term  
Loans from the Money Markets can be obtained on a short term basis.
- ◆ Local Temporary Loan  
Temporary loans offer the opportunity for the public to make short term investments with an Authority.

### **List of Approved Instruments for Investment**

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

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

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

### **Introduction**

The Section 151 Officer or Deputy Section 151 Officer has delegated responsibility under the revised code 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 December.
- ◆ 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 Head of Resources & Performance (151 Officer)** is responsible for:

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

**The Senior Business Partner (Transactional and Regulatory Services) /Deputy Section 151 Officer** is responsible for:

- ◆ Reviewing the annual Treasury Management Statement and Code of Practice.
- ◆ Overall management of the Treasury function.
- ◆ Deputising for the Head of 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 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 and 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 & Trainee Business Support Officer (Treasury and Regulatory Services)** 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.

### **List of Approved Brokers**

The Council currently has access to the following brokers:-

- |   |  |
|---|--|
| 1. Tradition<br>City Deposit Cash Managers<br>15 St Botolph Street<br>London<br>EC3A 7QX<br><br>Tel: (020) 7422 3500<br><a href="http://www.tradition.com">www.tradition.com</a>    | 2. Tullett Prebon Group Ltd<br>155 Bishopsgate<br>London<br>EC2M 3TQ<br><br>Tel: (020) 7895 9595<br><a href="http://www.tullib.com">www.tullib.com</a>                                       |
| 3. Sterling International Brokers Ltd<br>10 Chiswell Street<br>London<br>EC1Y 4UQ<br><br>Tel: (020) 7562 3456<br><a href="http://www.sterling-int.co.uk">www.sterling-int.co.uk</a> | 4. Martin Brokers (UK) Plc<br>Cannon Bridge House<br>25 Dowgate Hill<br>London<br>EC4R 2BB<br><br>Tel: (020) 7469 9000<br><a href="http://www.martin-brokers.com">www.martin-brokers.com</a> |

Any borrowing, by the Council, will be carried out by obtaining the best rate available from one of the above brokers or any other reputable broking firm.

### **Bankers**

The Council's bankers are Lloyds Bank Plc.

### **Long Term Borrowing (Public Works Loan Board)**

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

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

### **Investment Direct Dealing Practices**

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

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

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

### **Policy on Taping of Conversations**

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

### **Settlement Transmission Procedures**

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

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

### **Documentation Requirements**

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

## **REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6**

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

Four Treasury Management reports will be made to Council each financial year, the Treasury Management and Annual Investment Strategy Statement Report, the Treasury Management Monitoring Report, the Treasury Management Annual Report, and the report on the Prudential Indicators.

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

The Councils Prudential Indicators will be going on the Councils Performance Management System, Covalent and will be monitored quarterly by the Leadership Team and Performance, Audit and Scrutiny Committee.

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 the 7 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 from January 2011)
- ◆ Housing Benefits (HBIS) BACS payments (made on each Monday)
- ◆ Other daily income, eg. from cashiers



## **APPENDIX 3**

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

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

### **Objective**

The objective of the day to day cash management is to ensure that the consolidated balance of the Council's bank accounts is, where possible, kept within its target overnight level of £25,000 (where economically viable - but no more than £500k), whilst adequately meeting the day to day cash requirements of the Council.

However, balances over £500K may be retained in the bank account if a maturing investment is being used to cover payments going out within the next week and the total interest lost, by retaining this money, does not exceed £50.00.

### **Investment/Borrowing Decision Making**

Borrowing to meet any shortfall or investing directly with organisations on the approved list can be authorised by the Head of Resources and Performance (Section 151 Officer). Longer term borrowing requires Council approval.

### **Forecasting the closing balance on the consolidated account**

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

### **Bank Statement Procedures**

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

### **Payment Scheduling and Agreed Terms with Trade Creditors**

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

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

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

### **Procedure for Banking of Funds**

A private security firm carries out the banking of funds.

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

### **Scheme for the Advancing of Car Loans to Members of Staff**

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

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

### **Loans to Parish Councils**

The policy for 'Loans to Parish Councils' is now part of the Capital Grants Policy, and applications can only be considered by those Parish Councils within the Council's area.

A loan to a parish council can only be granted for Capital Expenditure; a loan for any other purpose will not be considered by the Council.

More detailed information on the criteria for a loan and the application process can be obtained from Resources and Performance.

### **Anglia Revenues Partnership Trading Ltd (ARP Trading Ltd)**

The Council has an interest in ARP Trading Ltd, the trading arm of the Anglia Revenues Partnership. The shareholders agreement includes provision for ARP Trading Ltd to approach its shareholders for funding up to £100K in total.

## **MONEY LAUNDERING - TMP9**

### **Methodology for Identifying Sources of Deposit**

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

The same criterion is used by the Council's Fund Managers and Advisors.

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

Institutions the Council wishes to add onto its approved list of organisations for investments are assessed by a member of the Treasury team. If the organisation fits the required criteria for dealing, and for Building Societies assets valued in excess of £1bn, they can be added to the list with the approval of the Section 151 Officer and the Deputy Section 151 Officer. Deals are only made with newly approved

organisations once written confirmation of bank details (on the organisations headed paper) are received.

Other details regarding the addition of new organisations onto the Councils approved list of organisations for investments are contained in the schedules for Risk Management under the heading "Credit and Counterparty Policies".

### **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.

Current long term borrowing stands at £4M. 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.

## **STAFF TRAINING AND DEVELOPMENT – 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.

## **USE OF EXTERNAL SERVICE PROVIDERS - TMP11**

The Council's external portfolio of funds is currently managed by Tradition, City Deposit Cash Managers (CDCM). In addition to this, CDCM provide the Council with market advice and expertise as and when required.

The Council has no formal contractual arrangements with any other Brokers. This situation will be subject to review.

The Council's Bankers are Lloyds Bank PLC, details of which can be found in the schedule to TMP5 - Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements.

## **CORPORATE GOVERNANCE – TMP12**

### **Information Available for Public Inspection**

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

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

### **Consultation with Stakeholders**

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