

Policy Committee – 20th January 2015

TREASURY MANAGEMENT PRACTICES AND SCHEDULES UPDATE



Report of the Strategic Manager – Financial Services (s151 Officer)

Ward(s) affected: All

1. Purpose of Report

- 1.1 To present to Members an updated Treasury Management Practices and Schedules document.

2. Recommendations

Members are recommended to:

- 2.1 Approve the Updated Treasury Management Practices and Support Schedules

3. The Report

- 3.1 At the meeting of Policy Committee on 17 January 2012 Members were adopted the 2011 CIPFA Code of Practice – Treasury Management in the public services. This code required the Council to amend its Treasury Management Practices (TMP's) and supporting schedules. Since that date there have been a number of changes and the documents have required updating. The updated documents are attached as appendices A and B to this report.
- 3.2 The TMP's set the framework for the Council's Annual Treasury Management Strategy which will be presented as part of the 2015/16 budget setting process in February 2015.
- 3.3 The documents have been updated to reflect staffing changes within the finance team who deal with treasury management on a day to day basis.
- 3.4 TMP1 has had an additional paragraph inserted to reflect the impact of inflation risk.
- 3.5 The TMP schedules have been updated to reflect the change in the Council's bank from NatWest to Lloyds and the change in Treasury Management

Advisors from Sterling Consultancy Services to Capita Asset Services (Capita Treasury Solutions).

- 3.6 In addition the TMP schedules have been updated to reflect the changing financial environment and the additional factors that the Council should have regard to when assessing credit worthiness of financial institutions particularly sovereign status and Credit Default Swap indicators.
- 3.7 Due to improved cash flows the Council is experiencing difficulty in placing funds with appropriate counterparties until they are required. Therefore based on advice from Capita to try and mitigate this the counter party limits have also been amended as have the duration of investments to reflect the improved cash flows that the Council has and also the potential changes in interest rates.
- 3.8 The changes in paragraphs 3.6 and 3.7 will be reflected in the Treasury Management Strategy for 2015/16.

4. Implications

4.1 Financial and Value for Money Implications

There are no financial implications attached to this report.

4.2 Legal implications

It is a requirement under the provisions of the Local Government Act 2003 that local authorities have regard to a) such guidance as the Secretary of State may issue, and b) such other guidance as the Secretary of State may by regulations specify. The local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in paragraph 24 require local authorities to have regard to this guidance.

4.3 Contribution to Council Priorities

Formal adoption of the CIPFA code for treasury management demonstrates awareness of the risks associated with treasury management and therefore supports a cost effective Council.

4.4 Risk Management

Formal adoption of the CIPFA code for treasury management demonstrates awareness of the risks associated with treasury management, and the TMPs and Schedules define how those risks will be managed.

4.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential

to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

5. Consultations with Others

The Treasury Management Practices and Schedules documents have been structured and worded in accordance with the CIPFA Code of Practice and Cross-Sectoral Guidance Notes 2011.

6. Access to Information : Background Documents

None

7. Author of the Report

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8. Appendices

Appendix A – Treasury Management Practices
Appendix B – TMP Schedules

CRAVEN DISTRICT COUNCIL

TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

November 2014

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CRAVEN DISTRICT COUNCIL

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

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TMP1: RISK MANAGEMENT

General Statement

The responsible 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

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

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

[2] Liquidity risk management

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

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

This organisation 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

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council

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has failed to protect itself adequately.

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

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

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.

[4] Exchange rate risk management

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

Not currently relevant to this Council. If the organisation should adopt a policy allowing investment in foreign currencies, it 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

Inflation Rate risk is the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

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

The Council will achieve its 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.

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[6] Refinancing risk management

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

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements in accordance with *TMP6 Reporting requirements and management information arrangements*.

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

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

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

[7] Legal and regulatory risk management

This is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

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

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

[8] Fraud, error and corruption, and contingency management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its

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treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.

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

[9] Market risk management

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

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

TMP2: PERFORMANCE MEASUREMENT

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

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.

TMP3: DECISION-MAKING AND ANALYSIS

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

TMP4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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arrangements to use such products to ensure that it fully understands those products.

TMP5: 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 principles 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 this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

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

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

TMP6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the organisation will receive the following reports to its Council (or its delegated Committee):-

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

TMP7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time 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 as a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Treasury risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*.

The Responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8: CASH AND CASH FLOW MANAGEMENT

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

TMP9: MONEY LAUNDERING

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

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TMP10: TRAINING AND QUALIFICATIONS

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

The responsible officer will ensure that 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.

TMP11: USE OF EXTERNAL SERVICE PROVIDERS

This organisation recognises the potential value of employing external providers of treasury management advice, 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

TMP12: CORPORATE GOVERNANCE

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

This organisation has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer (S151 Officer), will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

CRAVEN DISTRICT COUNCIL

**TREASURY MANAGEMENT
PRACTICES**

Part 2: Schedules

November 2014

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this Authority.

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TMP1 RISK MANAGEMENT

1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

1.1 Criteria to be used for creating/managing approved counterparty lists/limits

The Council's Treasury Advisers will supply a list of financial institutions showing their credit ratings. Additionally, the Council may use the following organisations which may not be rated:-

- a) Other (British) principal local authorities (except parishes, Pension Funds, Fire and Police Authorities) i.e. Districts, Counties, Unitaries, Metropolitan and London Boroughs;
- b) Any bank which is covered by UK Government guarantee;
- c) Any unrated building society which is covered by the building societies' regulatory framework and insolvency regime;
- d) Debt Management Office;
- e) The UK Clearing Bank which is acting as Banker to the Council.

1.2 Approved methodology for changing limits and adding or removing counterparties

Counterparty limits with the assistance of the Council's Treasury Management Advisors will be reviewed at least annually and will be defined in the Treasury Strategy Statement. All credit ratings will be monitored on a continual basis and reviewed monthly. Credit ratings will be formulated using information from the ratings agencies on sovereign status institutional ratings, together with information based on Credit Default Swap (CDS) data and other financial market intelligence. The Council will be assisted by and is alerted by its external Treasury Management advisors, to changes in credit ratings.

If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

If a counterparty/investment scheme is upgraded so that it fulfills the Council's criteria, the Treasury Manager will have the discretion to include it on the lending list.

1.3 List of ratings and investment limits

The financial investment limits of banks and building societies are linked to their Fitch or Moodys short-term ratings, their guarantee status, their CDS status, or their asset base as follows:-

Banks (Fitch/Moodys)

F1/P-1	£3m
UK guaranteed	£3m

Building Societies (Fitch/Moodys)

F2/P-2	£1m
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Unrated Building Societies
Assets £1b (minimum) £0.5m

Money Market Funds
AAA rated £3m per fund

The maximum period for fixed term investments will be 5 years.

1.4 Credit rating agencies

Credit ratings will be those used by the Treasury Advisers as shown in the counterparty register. These are currently:-

Fitch
Moody's Investors Services
Standard & Poor's

2 LIQUIDITY RISK MANAGEMENT

2.1 Amounts of approved minimum cash balances and short-term investments

Cash balances and short-term investments shall be managed so as to cover all anticipated cashflows for the year ahead whilst minimising recourse to short-term borrowing for temporary cashflow shortages. Accordingly the minimum level of cash balances and short-term investments is nil.

2.2 Details of:

- a) Standby facilities
None.
- b) Bank overdraft arrangements
The agreed overdraft limit for the Council's accumulated bank balance is a cleared balance of £500,000. This is agreed as part of the Council's Corporate Banking Contract.
- c) Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market
- d) Insurance/guarantee facilities
None.
- e) Other contingency arrangements
In the event that the Council Offices are closed on a banking day (likely to occur over Christmas and New Year period) then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time.

3. INTEREST RATE

3.1 Details of approved interest rate exposure limits

The maximum proportion of interest payable which is at fixed and variable rates is one of the required Prudential Indicators and is determined on an annual basis as

part of the Treasury Strategy Statement. This proportion allows headroom for any exceptional market conditions that may arise, and permits the Treasury Manager to undertake capital market transactions so as to secure the Council's best interests. Apart from these special circumstances the strategy would normally be to avoid undue exposure to interest rate volatility, by seeking to keep below 25% the proportion of interest payable which is at variable rates.

The Council Investment Strategy will set the limits for the Council's lendings to a 5 year term, and so the Council can optimise the impact of short or longer term term interest rate exposure on its interest receivables. This exposure is continuously managed according to market conditions and economic prospects for the year ahead.

3.2 Trigger points and other guidelines for managing changes to interest rate levels

General principles are to avoid funding at historically high rates where possible. Some move to funding should generally occur as rates fall, and maximum funding should generally be undertaken at an appropriate lower level. The presumption is that funding will be undertaken at fixed interest rates; unless it appears that variable rate funding will be in the authority's best interests. However, this will be determined with advice from the organisation's treasury adviser. Premature redemption of long-term debt should be considered taking into consideration any applicable premium or discount and interest savings and losses.

3.3 Policies concerning the use of financial derivatives and other instruments for interest rate management

a. Forward dealing

This allows the organisation to take advantage of higher fixed interest rates during periods of interest rate decline.

b. Callable deposits (fixed investments for up to 5 years at borrower's option)

Not approved as an authorised dealing technique.

c. LOBOs (borrowing under lender's option/borrower's option)

This is an approved as an authorised dealing technique. However, it is unlikely to be considered while the Council's net borrowing requirements remain low or negative, or while the Council has recourse to running down lending levels as an alternative to borrowing, and while the Council has adequate access to PWLB and money market fixed rate funds.

4. EXCHANGE RATE RISK MANAGEMENT

Details of approved exchange rate exposure limits for cash investments/debt

The Council's Treasury Strategy does not permit direct dealings in foreign currencies. However, there may be occasions when income is received in a currency other than sterling or expenditure is incurred in a currency other than sterling during the course of its operating activities. These occurrences will be discouraged or limited to occasions when such dealings are favourable to the Council.

5. REFINANCING RISK MANAGEMENT

5.1 Debt/other capital financing maturity profiling, policies and practices

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

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to enhance the balance of the long term portfolio.

All rescheduling will be reported to the Committee responsible for Treasury matters in accordance with the reporting mechanism set out in TMP 6.

The Council will seek to limit refinancing exposure by complying with the prudential indicator on the maturity profile.

General principles are to aim for a reasonably balanced maturity profile (subject to considerations of achieving low interest rate borrowings) and to avoid funding at historically high rates where possible. The policy on maturity profiling will also be influenced by the perceived level of future cash and investment balances.

5.2 Projected capital investment requirements

The Chief Finance Officer will prepare for the Council a plan for capital expenditure as part of the Medium Term Financial Plan . This will be in accordance with Government's capital consent guidelines. The capital plan will be used to prepare a revenue budget for charges associated with principal repayments, interest and other expenses.

This organisation will ensure that its capital investment plans are at all times capable of being financed from the capital resources available to it, including borrowing and direct revenue financing, including the limitations imposed by statute and by any Prudential Code of Practice.

5.3 Policy concerning limits on revenue consequences of capital financing

The revenue budget for loan charges is based on the capital plan and expenditure consents. The main source of borrowing for the council is, currently, the PWLB. The amount which can be borrowed in any one year is called quota and this is based on loan repayments and capital spend. The limits on revenue consequences are therefore controlled by the consent for which revenue budget resources have been provided.

This Authority will ensure that the revenue consequences of its capital investment plans are capable of being financed from the revenue resources reasonably expected to be available to it, including any limitations imposed by statute and by any Prudential Code of Practice.

6. LEGAL AND REGULATORY RISK MANAGEMENT

6.1 References to relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute and regulations. These are:

Local Government Act 2003

Local Government Finance Act 1992 – Balanced budget requirement – S32 for billing authorities, S43 for precepting authorities.

SI 2003 No 3146 – Local Authorities (Capital Finance and Accounting) (England)

SI 2004 No 534 – Local Authorities (Capital Finance and Accounting) (Amendment) (England)

ODPM Guidance on Investments

CIPFA Treasury Management in the Public Service - Code of Practice

CIPFA Standard of professional practice 2002

CIPFA Prudential Code for capital Finance in Local Authorities (2004)

Non-Investment Products Code

International Financial Reporting Standards

6.2 Statement on the Authority's political risks and management of same

This Authority will conduct its market transactions in such a manner as to contain its exposure to political risks, taking appropriate action to manage the same when considered prudent. This will be done by making appropriate representations on proposed legislation and by ensuring that the statutory powers of the designated "Chief Finance Officer", the designated "Monitoring Officer" and the External Auditors are understood and used if considered necessary.

7. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

7.1 Systems and procedures to be followed

Internal Audit will report annually on the treasury function as part of their normal audit programme.

An up to date written or computer record of all transactions, limits etc. must be maintained by the treasury function and adequate back up records in the form of written documentation or electronic storage kept.

The treasury management function must maintain an up to date treasury procedures document to enable the daily treasury management procedures to be carried out in the absence of the regular staff.

7.2 Emergency and contingency planning arrangements

The Chief Financial Officer will determine the arrangements for the proper and continuous fulfilment of the treasury management function in accordance with the policy statement within the Council's emergency operational procedures.

Treasury Management electronic files are held on the IT network at Belle Vue Square. The server and files are also mirrored to our DR site at the Town Hall. In the event of network failure at Belle Vue Square the system would work from our DR site and be available immediately. Data is currently kept for 14 days only as there is insufficient capacity on existing IT resources to keep more versions. The IT department is planning to make a capital investment to extend the backup function.

As part of the Shared ICT service, this Council is planning to mirror its server and files to the IT facility at Selby District Council to provide efficient use of resources.

Web-based access to the organisation's current account is provided by the organisation's selected bankers. Should that system fail, arrangements are in place to perform treasury transactions by fax signed by an authorised signatory, or, in the case of CHAPS payments, at the local branch office.

Lending and borrowing arrangements can be made over the voice network, and are subsequently confirmed in writing by both the broker and the counterparty.

The Council has defined and adopted a Business Continuity Plan and Disaster Recovery Programme.

7.3 Insurance cover details

The Council maintains 'fidelity' insurance to cover the loss of cash by fraud or dishonesty, 'officials indemnity' insurance to cover loss to the Council resulting from negligent or careless actions or advice given by its officers, and 'business interruption' insurance to cover loss occasioned by a failure to transact its business.

8. MARKET RISK MANAGEMENT

8.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs etc)

Unless authorised by Council, and in the absence of external fund managers, this Authority will not use investment instruments where capital values may fluctuate.

Investment instruments used by external fund managers can be subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and investment performance should be commensurate with this objective.

TMP 2 PERFORMANCE MEASUREMENT

1. METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

- 1.1 The treasury management function will be subject to performance measurement according to the criteria outlined in the annual strategy document.
- 1.2 The performance of the brokers used by the authority will be monitored regularly and reviewed annually to ensure that investments placed through them have achieved competitive market rates.
- 1.3 The Council's banking service requirements will be reviewed at least every 3 years and the process of evaluation must have regard to quality as well as the levels of fees and overdrafts charges. Potential financial savings from reduced fees and charges offered by an alternative provider must be measured against the cost of implementing a change in provider, and must deliver a reasonable financial or operational advantage.
- 1.4 The Council will employ external treasury management advisers.

2. POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.1 Frequency and processes

This Authority's policy is to seek best value for those parts of its treasury activities which are conducive to this process (i.e. those services listed at 2.2 to 2.5 below), and to limit contract periods to three years as a maximum. Procurement of these services shall be in accordance with Financial and Contract Procedure Rules (where these are applicable).

This Authority does not place its capital in the hands of external fund managers for the reasons described in 2.4 below.

2.2 Banking services

Should the three-yearly review indicate potential to improve value, the banking service will be retendered or renegotiated to ensure that the level of prices and service are the best achievable in the current marketplace.

2.3 Money-broking services

This Authority will use money broking services as part of its arrangements for making deposits or for borrowing, and will establish their charges (if any) for all services prior to using them. An approved list of brokers (as detailed in the TMP 5 Schedules) is maintained which takes account of both price and quality of services.

2.4 Cash/Fund management services

The Authority's policy is not to appoint external investment fund managers for the following reasons:-

- core/surplus funds are not considered sufficient to warrant external management in terms of both providing fund managers with adequate resources for diversification or to justify the fees that would be charged;
- the Authority has taken the view that the appointment of external fund managers would not justify the investment of senior management time in terms of the expected marginal return (less fees) over what could be achieved internally;
- the Authority has preferred to retain some liquid resources pending any early redemption of debt at the optimal time;
- the Authority has preferred to maintain direct control over its capital;
- the authority has preferred the simplicity of cash lendings (rather than the volatility implied by gilts and other instruments used by fund managers in the pursuit of out-performing cash yields) and as a result considers that the requisite skills and expertise are available in-house or from the Authority's treasury management advisers.

2.5 Consultants'/Advisers' services

This Authority's policy is to appoint the services of full-time professional treasury management advisers on a three-year contract, so as to obtain external expertise which is not available in-house and to provide an external stimulus to the achievement of best value together with a reference source if required for further ad-hoc support to any tendering process.

3. METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE AUTHORITY'S TREASURY MANAGEMENT ACTIVITIES

Regular reporting as set out in TMP 6 *Reporting Requirements and Management Information Arrangements*.

- Performance measured against Annual Treasury Strategy Statement targets.
- Compliance to CIPFA Code of Treasury Practice.
- Expenses contained within approved budget.
- Review of any other performance indicators which may be collected by the Treasury Manager from time to time.

4. BENCHMARKS AND CALCULATION METHODOLOGY

4.1 Debt management

The following benchmarks will apply to Debt Management:-

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

4.2 **Investment**

The performance of in house investment earnings will be measured against the 7-day LIBID.

TMP 3 DECISION-MAKING AND ANALYSIS

1. FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES

1.1 Records to be kept

Full and comprehensive records to document every transaction and the settlement of each party's obligations thereon are maintained.

The following records will be used relative to each loan or investment:-

- Daily cash projections for the year forward, including forecast and actual bank balances with supporting information.
- Trade confirmations for all money market transactions.
- PWLB loan schedules.
- Short-term loan agreements.
- Market bond certificates.
- Special loan certificates.
- Brokers confirmations for deposits/investments

There will also be kept an individual analysis of each investment showing, amongst other things, counterparty, amount of investment, interest rate, date borrowed/repaid, authorisation, bank details, and broker, together with a summary list of investments.

Notes will be kept to support the Treasury decisions made on all transactions with reference to their impact on the daily cash balance, the potential impact on treasury returns for the year or, if a significant departure from normal dealing terms or instruments is required, written higher authority wherever necessary.

1.2 Processes to be pursued

The following processes will be followed on a regular basis:-

- Cash flow analysis.
- Maturity analysis.
- Ledger reconciliations
- Review of borrowing requirement.
- Monitoring of projected loan charges and interest and expenses costs.
- Review of opportunities for debt rescheduling.
- Collation of performance information.

All deals to be within the limits and strategies laid down in the Treasury Management Practices and the Treasury Management Strategy, using only instruments on the approved list. All deals to be approved in advance at the appropriate hierarchical level in accordance with *TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements*.

1.3 Issues to be addressed

In respect of every decision made the Authority will:

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

In respect of borrowing and other funding decisions, the Authority will:

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

In respect of investment decisions, the Authority will:-

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

In respect of both borrowing and investment decisions, the Authority will, where considered necessary, seek the advice of its appointed Treasury Advisers, and document such event.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

1. LIST OF APPROVED INSTRUMENTS

Investment instruments will comply with the CLG Investment Guidance first published in 2004 and amended in 2010. The instruments used will be:

- term deposits with banks and building societies up to a maximum of 5 years
- term Deposits with the Debt Management Office (DMO)
- money market funds that meet the criteria set in SI 451 of 2002
- certificates of deposits up to a maximum of 364 days *
- gilts *

* these instruments to be used solely by external fund managers, if appointed.

Borrowing instruments will comply with current statute and the CIPFA Prudential Code for Capital Finance in Local Authorities, and within these the Authority has a number of approved methods and sources of raising capital finance as follows:-

On Balance Sheet	Fixed	Variable
PWLB	●	●
European Investment Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●
Off Balance Sheet		
Government and EC Capital Grants		
Lottery monies		
PFI/PPP		
Operating leases		

The Chief Financial Officer has delegated powers through Financial Procedure Rules and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

2. APPROVED METHODS

All investment and borrowing decisions will result from the daily cash flow analysis detailed in TMP 8, and will be supported by external advice and facilitation where appropriate.

3. APPROVED TECHNIQUES

- Forward dealing up to 364 days - no limit
- Callable deposits - no limit

Swaps, Caps, Collars and Options are NOT approved techniques in this Authority.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

INDEX OF SECTIONS

- 1. Limits to responsibilities/discretion at committee/executive levels**
- 2. Principles and practices concerning segregation of duties**
- 3. Treasury management organisation**
- 4. Statement of activities/duties/responsibilities**
- 5. Absence cover arrangements**
- 6. Dealing procedures**
- 7. Transmission procedures**
- 8. Borrowing maturity profile**
- 9. Interest rate & inflation risk management**
- 10. Data recording**

1. LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVEL

Duties will be divided as follows :-

- a) The Policy Committee will receive and review reports on treasury management policies, practices and activities, the annual treasury management strategy and regular monitoring reports.
- b) The Chief Financial Officer will be responsible for amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices, and reporting same for Committee approval where necessary.
- c) The Policy Committee will consider and approve the Treasury Management budget, as part of the overall budget setting process.
- d) The Chief Financial Officer will determine the segregation of responsibilities.
- e) The Chief Financial Officer will receive and review external audit reports and put recommendations to the Audit Sub-Committee as required.
- f) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Policy Committee and the Chief Financial Officer in accordance with Financial and Contract Procedure Rules.

2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

- 2.1 Daily cash flow monitoring, and treasury decisions resulting from that, is performed by the Finance Officer
- 2.2 Daily recording of treasury transactions is performed by the Finance Officer.
- 2.3 Absence cover is provided within the Financial Services team,
- 2.4 Cash outflows are arranged online and require two officers to complete.
- 2.5 The Chief Financial Officer authorises all new long-term borrowing.

3. TREASURY MANAGEMENT ORGANISATION

- 3.1 The day to day management and operation of the treasury management function is the responsibility of Financial Services.
- 3.2 There are four officers with knowledge of the daily cash flow decision-making process and treasury management policies and practices.
- 3.3 A procedure note is available to guide officer(s) unfamiliar with treasury management.
- 3.4 Prior to taking pre-arranged absences, the Finance Officer evaluates the known treasury activities occurring during the period of absence and either arranges forward deals and transactions as will be required or briefs the member of the team who will monitor treasury activity during periods of absence. Any unforeseen activity will be managed on the day by one (or a combination) of the other three officers.

4. STATEMENT OF ACTIVITIES/DUTIES/RESPONSIBILITIES

4.1 The approved activities of the treasury management operation are as follows:-

- Short-term borrowing (i.e. less than 364 days) to finance cashflow deficits;
- long term borrowing to finance the Council's capital expenditure requirements;
- funding of capital payments through capital receipts, grants, internal funds or leasing;
- debt repayment and rescheduling;
- lending of surplus funds in accordance with the Annual Investment Strategy;
- consideration, approval and use of new financial instruments and treasury management techniques, subject to Committee approval;
- managing the underlying risk associated with the authority's capital financing and surplus funds activities;
- managing cash flow and cash flow forecasting;
- banking activities;
- leasing;
- consideration and use of external fund managers;
- interest rate exposure management;
- managing the underlying exchange rate risk associated with the authority's business activities.
- dealing with brokers, the Council's bankers, the PWLB and directly with counterparties as required for the activities above.

4.2 Duties of the Council's officers

Chief Executive Officer - Head of Paid Service - although not regularly involved in the day to day treasury management activities, the CEO should provide a strategic overview of the function. Specifically, the duties of the CEO should be to:-

- Ensure that the Chief Financial Officer reports regularly to the relevant Committee on treasury policy, strategy, activity and performance;
- Ensure that treasury management systems are specified and implemented;
- Receive reports from the Chief Financial Officer on treasury management activity and strategy at least twice a year and where material changes to treasury management policy and strategy are proposed;
- Ensure that the treasury management function is adequately resourced to ensure continuous provision.

4.3 Solicitor to the Council and Monitoring Officer. The role of the Monitoring Officer is to: -

- Ensure compliance by the Chief Financial Officer with the Treasury Management Policy Statement;
- Ensure that the Treasury Management Policy Statement complies with all relevant statutes;
- Ensure that any proposal to vary treasury policy or practice complies with all relevant statutes;

- Provide advice within its remit to the Chief Financial Officer when requested to do so;
- Ensure the Chief Financial Officer discusses material changes to treasury management policy and strategy with the Chief Executive Officer;
- Receive reports from the Chief Financial Officer when any material change is proposed to approved treasury policies and of any major breaches which have occurred.

4.4 Chief Financial Officer - Section 151 Officer - whose role in the treasury management function is to: -

- Designate the role of Treasury Officer;
- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance;
- Review the performance of the treasury management function and promote best value reviews;
- Ensure the adequacy of internal audit, and liaise with external audit;
- Assess and appoint treasury consultants and leasing advisers in accordance with Financial and Contract Procedure Rules;
- Review performance of treasury consultants and leasing advisers once a year and report as appropriate to the relevant Committee;
- Report to the Chief Executive Officer on treasury management activity and strategy at least twice a year and where material changes to treasury management policy and strategy are proposed;
- Notify the Monitoring Officer of any material change proposed to approved treasury policies and of any major breaches which have occurred;
- Ensure that treasury management policy and systems documents exist and are regularly reviewed, and monitor compliance;
- Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover;
- Decide upon funding and investment strategy on an annual basis and report to the relevant Committee;
- Determine the statutory treasury management limits and present them for approval by the relevant Committee and Council (where necessary);
- Produce a borrowing plan for any year in which borrowing is required and report to Council;
- Decide upon timing, nature and amount of long term borrowing and consider the vires of proposed action;
- Report to the relevant Committee at least twice a year the activities and performance of the treasury management function, including decisions and trends;
- Prior to entering into any capital financing, lending or investment transaction, be satisfied, by reference to the Council's legal department and external advisers as appropriate, that the proposed transaction does not breach any statute, external regulation or the Financial and Contract Procedure Rules;
- Ensure an appropriate division of duties;

4.5 Internal Audit - appointed by management to monitor the efficacy of its procedures with regard to:-

- Reviewing compliance with approved policy and procedures;
- Reviewing division of duties and operational practice;

- Assessing value for money from treasury activities;
- Undertaking probity and systems audits of the treasury function.

4.6 Treasury Officer - as designated by the Chief Financial Officer - is responsible for the day to day management of the treasury function as follows:-

- Advise the Chief Financial Officer on treasury matters;
- Manage the overall treasury function on a daily basis;
- Preparation of the Treasury Management Strategy, in conjunction with the Chief Financial Officer;
- Implement, review and if necessary revise the Authority's Treasury Management Policy statement;
- Undertake the treasury management function in accordance with the agreed Treasury Management Strategy;
- Prepare, and if necessary revise, treasury management practice notes and related schedules as required;
- Authorise daily short term borrowing and lending and consider the vires of proposed action;
- Undertake the dealing and initial recording of deals;
- Receive and check confirmation of deals;
- Maintain counterparties list in conjunction with the Authority's Treasury Management adviser;
- Maintain the Authority's medium term cash flow forecast;
- Enable user access to treasury management systems;
- Select and monitor performance of brokers;
- Monitor use of brokers and counterparties;
- Act either as an Inputter or an Authoriser (but not both on any one transaction) for transmission on deals and bank transfers.

5. ABSENCE COVER ARRANGEMENTS

- 5.1 There are four officers within the Finance section with knowledge of the day to day requirements of the treasury function.
- 5.2 Use of modern technology and methods allows for treasury activity to be instigated in a 'forward plan' arrangement to ensure continuity during planned absences.
- 5.3 Procedure notes and system user manuals are available to assist officers to perform treasury functions during periods of unplanned absence, or should an unexpected event occur during a planned absence.
- 5.4 Electronic files are stored in suitably-named folders accessed only by Financial Services' officers. Hard copy documents are stored in labeled files held within the Finance department.

6. CASH FLOW PROCEDURES

- 6.1 The Treasury Officer obtains reports of cleared balances, balances clearing within the day, and the days transaction statements from the banking system.

- 6.2 Daily cash flow forecasts are prepared showing the treasury activity which is required to maintain a credit balance in the Authority's current account.
- 6.3 In the absence of the Treasury Officer, any treasury activity which has not already been arranged should be identified by the covering officer and approved by the third officer or (if two officers are not available) the Chief Financial Officer.

6. DEALING PROCEDURES

- 6.1 All fixed term deals (including PWLB loans) should be done by telephone.
- 6.2 Direct dealing with counterparties should be strictly in accordance with the Non Investment Products (NIPS) Code.
- 6.3 Dealing with Money Market Funds should be transacted through an approved agency.
- 6.4 The Treasury Officer should document each deal showing:-

- ◆ Dealer (if used)
- ◆ amount
- ◆ period and date of redemption
- ◆ counterparty
- ◆ interest rate
- ◆ dealing date
- ◆ interest payment date(s)
- ◆ broker
- ◆ commission (if applicable);
- ◆ transmission arrangements
- ◆ why the deal was appropriate
- ◆ authorisation

- 6.5 The following brokers are authorised to be used:
- Tradition (UK) Ltd
 - Martins
 - Sterling Brokers

All new entries to the list are to be approved by the Treasury Officer.

- 6.6 The Treasury Officer will ensure there is an adequate spread of counterparties as set out in section 5 of the schedules to TMP 1.
- 6.7 The Treasury Officer will ensure that confirmations of deals sent either by a broker or a counterparty record accurate information about the deal and its redemption.

7. ELECTRONIC TRANSMISSION PROCEDURES

- 7.1 Transmission of monies will be by CHAPS transfer through the Council's electronic banking system which demands the involvement of two officers.

- 7.2 A separate record of all online payments will be kept for audit inspection as and when required.
- 7.3 In the event of a failure in the electronic transmission system, the procedures set out in section 8.2 of the schedules to TMP 1 (Emergency and Contingency Planning) will be followed.

8. BORROWINGS MATURITY PROFILE

It is the responsibility of the Chief Financial Officer to ensure that dates of maturity are spread reasonably evenly over a run of years, so that no year exposes the Council to a substantial re-borrowing requirement, and that borrowing arrangements comply with the prudential indicators. Where necessary, this will be undertaken with the advice of the Council's Treasury Management Advisers.

9. INTEREST RATE AND INFLATION RISK MANAGEMENT

- 9.1 The Chief Financial Officer will keep under review the interest rate exposure of the Council, its susceptibility to interest rate fluctuations and its interest burden; together with the effects of forecast economic conditions. Subject to advice from the Council's Treasury Officer and treasury management advisers, the Chief Financial Officer will consider what action, if any, is appropriate to manage interest and inflation risk.
- 9.2 The Chief Financial Officer will decide annually on the maximum proportion of interest on outstanding debt that may be at variable rates of interest in the following financial year for recommendation to the Council.

10. DATA RECORDING

- 10.1 The Treasury Officer will ensure that comprehensive data is maintained for management, reporting and measurement purposes. The data must provide information on, but is not restricted to : -
- ◆ Borrowing transactions – amount, cost and circumstances
 - ◆ Lending and investment transactions – amount, earnings and background
 - ◆ Cash flow – actual and variances from projections
 - ◆ Maturity spread
 - ◆ Interest Rate Exposure
- 10.2 All treasury management records will be kept for at least 6 years with the exception that where other rules or statutory requirements override this then the latter shall take precedence.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

1. CONTENT AND FREQUENCY OF COUNCIL AND/OR COMMITTEE REPORTING REQUIREMENTS

- 1.1 The minimum frequency of reporting treasury management activities is determined largely by the Council's Treasury Management Policy. As a minimum, the following reports should be provided to the relevant Committee:-
- a) the Annual Treasury Management Strategy Statement (incorporating the PIs and the Annual Investment Strategy);
 - b) a mid year Treasury Management Activity report (for the period ending 30th September); and
 - c) an Annual Report on Treasury Management Activity (for the previous financial year).
- 1.2 The Chief Financial Officer may determine at his own discretion that additional reports on Treasury Management Activities are presented to Committee from time to time subject to the requirements of ongoing treasury management activity.

2. ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

- 2.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. The strategy statement will be submitted to the relevant Committee for approval before the commencement of each financial year as required by statute.
- 2.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates.
- 2.3 The Treasury Management Strategy is concerned, amongst other relevant issues, with the following key elements:-
- The current treasury portfolio position;
 - financing of the Council's Capital Programme;
 - reference to the balanced budget requirements;
 - the prospects for interest rates;
 - the limits placed by the authority on treasury activities (see below);
 - the expected borrowing strategy;
 - the annual investment strategy;
 - the policy concerning investment versus debt redemption;
 - the expectations for debt rescheduling;
 - any extraordinary treasury issue.
- 2.4 The Treasury Management Strategy will forecast the move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and may highlight sensitivities to different scenarios.

- 2.5 The annual Strategy report also incorporates the treasury limits which the full Council must approve annually in advance by virtue CIPFA Prudential Code. These various limits are the overall borrowing limit, the short-term borrowing limit, and the maximum proportion of interest paid which is at variable rates.
- 2.6 It is the responsibility of the Treasury Manager, in conjunction with the Chief Financial Officer, to produce the Annual Treasury Management Strategy.

3. POLICY ON INTEREST RATE EXPOSURE

- 3.1 The CIPFA Prudential Code requires the Council to approve, prior to the beginning of each financial year, all the required prudential indicators including several treasury limits as follows:-
- An Authorised Limit;
 - An Operational Boundary; and
 - Limits on the proportion of net borrowing that is subject to fixed and variable rate interest.
 - Maximum amounts which can be invested greater than one year.
- 3.2 The Chief Financial Officer has delegated responsibility for ensuring compliance with these limits and will report them for approval in the Council's annual Treasury Strategy Statement (see above). In addition, should it be necessary to change these limits during the year, the Chief Financial Officer will submit the changes for approval by the relevant Committee, before submission to full Council for approval.
- 3.3 A strategy for response to volatility of rates shall also be incorporated in the Treasury Management Strategy.

4. MID YEAR REPORT ON TREASURY MANAGEMENT ACTIVITY

- 4.1 The mid-year report on treasury management activity is produced to give Members an update on performance against the approved Annual Treasury Management Statement. The report should be produced for the period ending 30th September and presented to the relevant Committee. It should include, amongst other things:-
- updated treasury (or portfolio) position;
 - compliance with Treasury Management Limits;
 - details of any additional long term borrowing or debt repayments;
 - details of short term borrowing;
 - an analysis of investments;
 - an economic outlook including prospects for interest rates and the likely impact on the Council's portfolio;
 - any other relevant treasury management matters, for example, the relationship with the Council's treasury management advisers.

5. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the relevant Committee as soon as practicable

after the end of the financial year, and in any case by the end of September, as required by the Prudential Code. This report will include the following: -

- an overview for the financial year of the significant treasury policies, plans, activities and results;
- transactions executed and their revenue (current) effects (including reference to the balanced budget requirements);
- commentary on any risk implications of decisions taken and transactions executed;
- exceptions monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- exceptions monitoring of compliance with powers delegated to officers;
- comparison with the original strategy and explanation of deviations;
- explanation of any significant future impact of decisions taken on the authority;
- measurements of performance;
- exceptions report on compliance with CIPFA Code recommendations.

6. MANAGEMENT INFORMATION REPORTS

On a quarterly basis, the Treasury Manager will review the forecast income/liability arising from treasury activities for the year by analysing rates of return on investments and incorporating additional interest payments on borrowing, and inform the revenue budget monitoring process accordingly.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

1. OVERVIEW

The budget for treasury activities is determined and held as part of the Council's overall revenue budget and comprises:

- Staff costs,
- Training in treasury matters,
- Banking costs,
- Treasury adviser costs,
- Cost of insuring against fraud, corruption and negligence

Budget setting follows a methodology and timetable as agreed by Members to ensure a balanced budget which includes the cost or contribution arising from treasury activities.

The budget setting procedure complies with the requirements of TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.

The Treasury Manager will exercise effective controls over the 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 present form of the Council's accounts is set out below.

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 below.

2. STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

3. ACCOUNTING PRACTICES AND STANDARDS

The accounting practices and standards, including treasury matters, are laid down in The Code and in the Service Reporting Code of Practice (SerCOP)

4. LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

Auditors, whether internal or external, have free and unlimited rights of access to all treasury information, records, documents and explanations as they require for the purposes of their audit. This includes the following: -

- Insurance arrangements;
- Counterparty lists;
- Electronic Fund Transfers procedures and controls;
- Financial ledger details of revenue transactions and balance sheet movements;
- Reconciliation of loans interest and premiums paid to financial ledger by loan type;
- Maturity analysis of loans outstanding;
- Calculation of loans fund interest and debt management expenses;
- Treasury policies, practices, strategies and annual reports;
- Calculation of Revenue Interest;
- Analysis of any Deferred Charges;
- Debt charges listing report;
- Principal and interest charges reports from Treasury Management System;
- Interest accruals report from Treasury Management System.

TMP 8 CASH AND CASH FLOW MANAGEMENT

1. ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

- 1.1 Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Daily cash flow is projected by taking the cleared balance for the day from the banking system together with a statement of the days cleared and uncleared transactions. A projection is then made to determine any other income/expenditure likely to occur during the day (e.g. investments maturing or outward CHAPS payments). From this analysis, a decision is taken whether to lend, borrow or do nothing;
- 1.2 The overall framework of the cash flow process needs to be considered against the Council's prudential indicators to ensure the Authorised Limit, Operational Boundary, and the limits on longer term investments are upheld.

2. CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

- a. The cash flow projection contains annual data or estimates (updated through the year) on Government grants, precepts, PWLB payments, and general creditors.
- b. Daily data is input on bankings, large creditor payments, and other significant transactions which will influence the cashflow forecast.

3. LISTING OF SOURCES OF INFORMATION

- Grants, precepts, PWLB – Finance Services files
- Payroll and general creditors runs – Financial Services (typical amounts are regularly reassessed and updated)
- Bankings - online banking system
- Large Creditors – Financial Services
- NNDR and Council Tax - Revenues and Benefits

4. BANK STATEMENTS PROCEDURES

- 4.1 The previous day's bank statement is downloaded at the start of each day from the banking system. A Financial Services officer identifies those items which need to be input to the Cash Receipting System. A cashier inputs those items and details are automatically posted to the financial ledger.
- 4.2 A Financial Services officer reconciles the Cash Receipting system data to the accounting system data on a daily basis. Full bank reconciliations are prepared monthly.

5. PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

- 5.1 Payment terms for suppliers are stored on the Creditors system according to the

invoice detail. Specific terms for individual transactions may be specified with the payment authorisation. Payments are scheduled automatically by the Creditors system as a process run by Financial Services.

- 5.2 The default level is to pay creditors within 30 days of the date the invoice is received by the Council (the date received by Financial Services is also recorded on the system for performance measurement purposes).

3. ARRANGEMENTS FOR MONITORING DEBTOR / CREDITOR LEVELS

- 3.1 Revenues section provides Financial Services with monthly reports detailing the analysis of total outstanding debt, age profile of outstanding debts and rates of collection on Council Tax and NNDR compared to total debits raised.
- 3.2 Creditors levels are monitored monthly as part of the Performance Management process i.e. the percentage of creditors paid within 30 days of the date the invoice is received by the Council. This accords with the Audit Commission Best Value Performance Indicator 8. Invoices arriving late to Financial Services are identified and analysed by a code in the range 2 to 9, each code relating to a reason for delay. BVPI8 reports on invoices coded 1 (received on time) which are not paid within the 30 days.

4. PROCEDURES FOR BANKING OF FUNDS

All departments are required by the Financial Procedure Rules to make bankings promptly. Significant value items should be dealt with without delay, including specific and separate banking action as necessary. No deductions may be made from such money save to the extent that the Chief Financial Officer may specifically authorise.

5. PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

Practices on prepayments for benefits - e.g. discounts - are left to the discretion of individual budget managers who are expected to exercise due caution, prudence and probity in liaison with Internal Audit as necessary. The Council's funds should not be placed at risk of supplier default before goods/services are received. No personal benefits must be obtained. Any non-monetary benefit to the Council must be approved by the responsible budget manager.

TMP 9 MONEY LAUNDERING

Since the topic of money laundering is quite wide and complex this TMP has been structured in the following way:

- Background legislation – This outlines the different statutory requirements applying to local authorities;
- Requirements of the legislation – This introduces the individual elements of the legislation each council will need to consider;
- Schedules – This provides a skeleton procedure note to prompt consideration of each of the areas above;
- Summary of the safeguards adopted in treasury management processes.

1. Background Legislation

There are several Acts of Parliament and the FSA has also made provisions relating to money laundering, with the main legislation being contained in the Criminal Act 1993 (which contains the provisions to implement the EU Money Laundering Directive). Detailed money laundering regulations came into effect on 1st March 2004 under SI 2003 No. 3075 (references to each regulation from the SI are shown in the body of the TMP), and this Statutory Instrument, The Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 cover the main compliance requirements.

The key requirements of this legislation cover an area wider than the fairly narrow treasury management function, including possessing, or in any way dealing with, or concealing, the proceeds of any crime.

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2003 (except through this TMP), the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and The Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

2. Requirements of the Regulations and Statutes

Every officer should in the course of Council business implement:

1. **Identification procedures** (SI 2003/3075 Money Laundering Regulations, 4 & 5)–
This regulation applies if
 - a. You are forming a business relationship; or
 - b. Considering undertaking a one-off transaction, and
 - i. Suspect a transaction involves money laundering; or
 - ii. A payment is to be made for €15,000 or more (approximately £10,000)
 - c. In respect of two or more one-off transactions that the transactions are linked and involve €15,000 or more
2. In these instances you should:
 - a. Set up and maintain identification procedures to ensure the counterparty produces satisfactory evidence of his identity;
 - b. Follow the procedures to ensure the counterparty provides satisfactory evidence.

3. These procedures should reflect:
 - a. The greater potential for money laundering if the counterparty is not physically present when being identified;
 - b. If satisfactory evidence is not obtained the relationship or transaction does not proceed.
 - c. If the counterparty acts, or appears to act, for another person, reasonable measures must be taken for the purpose of identifying that person.

4. The primary exception to this requirement is if the counterparty carries on FSA regulated business in the UK (or comparable or by overseas regulatory authority) it is not required that you obtain evidence. *In this case most treasury transactions will be undertaken with or via relevant businesses, although there may be isolated exceptions such as the Post Office.*

5. **Record keeping procedures** (Money Laundering Regulation 6) – The Council should maintain procedures covering the retention of records. To ensure compliance, records are required to be kept for 5 years after the end of the transaction or relationship.

6. **Internal reporting procedures** (Money Laundering Regulation 7) – The Council should maintain internal reporting procedures which document:
 - a. The “nominated officer” who will be the Money Laundering Reporting Officer (MLRO) who will receive nominations under this regulation;
 - b. Any other person in the organisation to whom information may arise which may result in them knowing or suspecting reasonable grounds for knowing or suspecting money laundering, fraud or use of the proceeds of crime;
 - c. If the MLRO receives a disclosure they should consider, in the light of all information, whether it gives rise to such knowledge or suspicion; and
 - d. If the MLRO determines that the information or matter should be disclosed they should do so to the National Criminal Intelligence Service (see 8. below).

7. **Other procedures** (Money Laundering Regulation 3(b)) – The Council should establish other procedures of internal control and communication as may be appropriate for the purpose of forestalling and preventing money laundering.

8. **Training** (Money Laundering Regulation 3(c)) – The Council should take appropriate measures to ensure that relevant employees are:
 - a. Made aware of the provisions of these regulations, Part 7 of the Proceeds of Crime Act 2002 and sections 18 and 21A of the Terrorism Act 2000 (these deal with the offences and are available from www.legislation.hmso.gov.uk).
 - b. Given training in how to recognise and deal with transactions which may be related to money laundering.

National Criminal Intelligence Service - In the event of an offence or a possible offence you should contact **NCIS initially through 020 7238 8000**

3. Schedules Addressing this Council’s Compliance

In order to address these requirements the Council has set up the following procedures:

For Treasury Management Purposes

1. **Training** – Through this document and specific training, staff will be kept aware of developments in money laundering regulations and the appropriate officers are encouraged to keep abreast of money laundering issues through publications and the internet. The MLRO will be required to attend specific professional courses on money laundering developments to ensure local knowledge is kept up to date.
2. **Material and regular deposits or borrowing** - For all investment or borrowing counterparties, the Council will ensure that the counterparty has been suitably identified. This will take the form of:
 - a. **Investment Counterparties** – All investment counterparties which are maintained on the Council’s lending list should be a deposit taker authorised by a regulatory body (e.g. the FSA {check via www.fsa.gov.uk/register}). As such the identification procedures usually required above do not apply since the institution carries out relevant business in the UK. Those counterparties not authorised as a deposit taker through the FSA are institutions, such as the Bank of England or Post Office, are not required to be the subject of stringent identification procedures, but the Council will review these on a case by case basis.
 - b. **Borrowing Counterparties** – All borrowing counterparties are dealt with through either of the following routes:
 - i. **Via Money brokers** – In this instance Money Laundering Regulations 5(2) applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK. However even when dealing via a broker it is the council’s responsibility to verify the counterparty, not the broker’s; or
 - ii. **Direct dealing** – In this instance the Council uses only recognised names, ones with credit ratings and to which the Council has reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions (such as Bank of England or Post Office), the nature of their business does not require stringent identification procedures, but the council will undertake procedures to “know the counterparty”.
3. If any treasury investment counterparties are not known to the Council the treasury officer will ensure identification of the counterparty by checking the credit rating of the organisation via the Council’s treasury advisers. This would normally be undertaken during the compilation of the counterparty list. If the counterparty is neither credit rated, nor known to be carrying on regulated business (e.g. FSA), the Council will not deal with that organisation.
4. **Small or irregular treasury deposits** – The Council may from time to time accept deposits from local institutions or individuals. In these circumstances the Council will require and copy identification of the institution’s contact officer or individual and the Council will take such steps that are reasonable (as defined by the Council) to ensure the activities and operations of the counterparty are appropriate. The identification process and documentation will be held with the information relating to

the transaction. In the event that identification is inadequate or not forthcoming the Council will not deal with that institution or individual

5. **Reporting** - Appoint a “nominated officer”, the MLRO, who is nominated to receive disclosures under this regulation. The MLRO for this Council is the Chief Financial Officer. Any concern of a transaction possibly being linked to either money laundering or the proceeds of crime must be referred to the MLRO for consideration and if the concerns are validated the NCIS must be notified.

4. Non–Treasury Management Transactions

1. **Regular cash and other receipts** - The Council has adopted a policy of discouraging creditors from making payment by cash. However, where cash is the only available method of payment, the de minimus limit of €15,000 (approximately £10,000) applied in the Money Laundering Regulations will mean that the requirements of the regulations do not apply to the majority of the Council’s customers, unless the Council employee would have reasonable grounds to suspect money laundering activities or proceeds of crime, or is simply suspicious. In the case of rental income, business rates etc. which exceed the de minimus limit the Council employee can take some confidence from the following:
 - a. Receipts will normally be paid by BACS or cheques and the relevant bank will be required to comply with the money laundering regulations for their customer.
 - b. These types of transactions relate to usage of a property or specific service which would not normally be ideal conduits for money laundering.
 - c. Most customers will be locally known businesses.
2. **Significant cash receipts** should be properly evaluated, evidence gathered and, if not supported, refused. Any bank payments from unknown or overseas banks should be subject to similar scrutiny.
3. **Occasional receipts from infrequent customers** – The main receipts accepted by the Council will be related to capital receipts from the sale of assets, although any other receipts in excess of €15,000 should be reviewed. In ensuring the identification procedures the Council can take confidence from the following:
 - a. The legal section will deal with the sale and will identify the payee during the course of the process of sale.
 - b. Receipts will normally be paid by BACS or cheques and the relevant bank will be required to comply with the money laundering regulations for their client.
 - c. Most customers will be long standing tenants or known businesses.
4. **Payments** – The majority of the payments by the Council will be via the payroll directly to bank accounts. Similarly the majority of creditor payments will be paid via BACS directly to domestic bank accounts or by crossed cheques and so the same controls will apply. In these cases the relevant bank will be required to comply with the money laundering regulations for their client’s further use of the money.

5. **Cash payments** are not made as a matter of course. From time to time the Council is requested by customers to open a cheque in order that they may cash it. The Council will only comply with such requests after taking steps to confirm the identity of the payee, but in any event will not allow cash payments in excess of £9,000.
6. **Refunds** – significant overpayments which result in repayments/refunds will be properly investigated and authorised before payment.
7. **Fraud** – The risk of fraud is examined on a regular basis and controls applied to all systems and procedures.

In the event of any suspicious transactions the MLRO should be contacted for investigation, and the possible perpetrator should not be informed (i.e. not “tipped off”).

5. PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

1. This authority does not accept loans from individuals.
2. All loans are obtained from the PWLB, other local authorities or from banks incorporated in the UK under the Banking Act 1987 as shown on the register of financial services providers maintained by the Financial Services Authority (FSA).
3. Before accepting any loans the Council will confirm the identity of the lender through the broker making the deal.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

1. DETAILS OF TRAINING NEEDS

Details of staff training needs will be formally identified as part of the Council's staff Personal Development Review programme (PDR).

2. DETAILS OF APPROVED TRAINING COURSES

- 2.1 In-house training and training updates will be provided as appropriate.
- 2.2 Where external training courses are available which are considered to be necessary to maintain continuing professional development, staff are encouraged to attend.

3. APPROVED QUALIFICATIONS FOR TREASURY STAFF

- 3.1 No specific Treasury qualifications are required to undertake the treasury management function given the relatively routine nature of approved techniques and activity.
- 3.2 Notwithstanding this, where possible, the Treasury Officer (the Authority's designated dealer) will be a qualified CCAB accountant or accounting technician.

4. STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

The Chief Financial Officer is committed to setting and upholding professional standards in treasury management through both personal compliance and by ensuring that relevant staff are appropriately trained. All officers involved in treasury management activities must demonstrate commitment to comply with the SOPP.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

1. DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

1.1 Banking Services

As at April 2011, the Council's Bankers are:-

- a) Name of supplier of service: Lloyds Bank plc
- b) Contract commenced: 1 April 2014 and runs for 5 years (including 2 year optional extension) until 31 March 2019
- c) Fees and charges debited from current account monthly
- d) Copy of contract held by Financial Services and included on the contracts register.

1.2 Money-broking services

The Council uses the services of the following broker(s)

- a) Tradition (UK) Ltd
- b) Martins
- c) Sterling

1.3 Cash/fund management services

The Council does not at present use the services of a cash/fund manager.

1.4 Treasury consultancy services

The Council uses the services of the following treasury management adviser:-

Capita Asset Services
(Capita Treasury Solutions)
40 Dukes Place
London
EC3A 7NH

- a) Contract commenced in April 2013 for three years until March 2016.
- b) Payments due: Quarterly in advance.
- c) Copy of contract held by Financial Services and included on the contracts register.

1.5 Leasing consultancy services

No contract is in place for this service due to there being no current requirement. Initial leasing advice is provided by Capita Asset Services as part of their treasury management provision.

1.6 Other providers' services

None. (Credit rating agencies' services are provided as part of the agreements outlined above).

TMP 12 CORPORATE GOVERNANCE

1. CIPFA/SOLACE GUIDANCE NOTE

The Note is based on the Cadbury Code and defines the principles of good corporate governance as: -

- Openness and inclusivity
- Integrity
- Accountability

The Note also provides checklists to help local authorities put the principles into practice. The checklists cover: -

- The development of a community focus
- service delivery arrangements
- the development of structures and processes
- the development of risk management and internal control
- the development of standards of conduct

The Council, in its treasury management practices, follows these principles and checklists.

2. LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

Annual accounts
Annual Budget
Annual Capital Programme
Treasury Management Policy
Treasury Management Strategy
Annual Treasury Report
Access to Council minutes

For the statutory public inspection of accounts, the Authority makes clear arrangements for ready public access to all invoices, vouchers for payment and associated documents and records (except where personal or commercial confidentiality prevails). Access to any Treasury document would be granted upon request, under the Council's policy of full disclosure on its financial affairs (subject only to confidentiality as aforesaid).