

## CITY OF PLYMOUTH

<b>Subject:</b>	Treasury Management Practices, Principles and Schedules 2019/20
<b>Committee:</b>	Audit Committee
<b>Date:</b>	11 March 2019
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Service Director for Finance)
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<b>Ref:</b>	Fin/CAF
<b>Key Decision</b>	No
<b>Part:</b>	I

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### **Purpose of the report:**

The CIPFA Code of Practice on Treasury Management requires the Council to publish its practices, principles and schedules each year. The Treasury Management practices, principles and schedules are in place to ensure the Council's Treasury Management policy is adhered to and that working practices and controls are in place to meet the approved strategy.

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### **The Council Corporate Plan 2016/17 – 2018/19:**

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

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### **Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns. The Treasury Management Strategy sets the authorised limits and operational boundaries within which investment and borrowing decisions are taken and risks managed. Effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, and Risk Management:**

The current volatility and uncertainty within the global financial markets has had a substantial effect on Treasury Management activities. The risk in the Council's investments and loans will be constantly monitored and acted upon in accordance with the principles and procedures set out in the Council's Treasury Management Practices, Principles and Schedules.

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**Recommendations & Reasons for recommended action:**

To approve the Treasury Management Practices, Principles and Schedules for 2018/19 as set out in this report to ensure compliance with the CIPFA Code of Practice for Treasury Management.

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**Alternative options considered and reasons for recommended action:**

There are no alternative options. The Council has adopted the CIPFA Code of Practice for Treasury Management which requires the Treasury Management Practices, Principles and Schedules to be scrutinised and approved by the Audit Committee .

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**Published work/information**

Treasury Management Strategy 2019/20 at Council on 25 February 2019

**Background papers:**

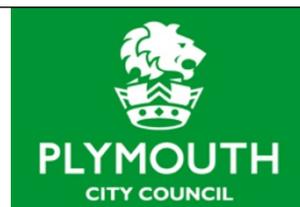
None

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**Sign off:**

Fin	PL.18.19. 224	Leg	LT/622 25/1/2 802	Mon Off	LT/62225/ 1/2802	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Service Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes, but subject to any recommendations from Audit Committee.													

# TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES 2019-20



This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for Plymouth City Council treasury operations are referenced below:

INDEX	TMP Number	Page
Organisational chart of the Council's Finance and Treasury Division Statement of duties and responsibilities Absence cover	TMP 5	29
Liquidity Management, Cash flow, bank overdraft, short-term borrowing/lending Cash Flow forecasts Bank statements, payment scheduling	TMP 1 TMP 8 TMP 8	6 44 46
Electronic banking and dealing Standard Settlement Instructions, Payment Authorisation	TMP 1	6
Approved types and sources of borrowing Approved investment instruments	TMP 4	25
Counterparty and Credit Risk Management Current criteria Counterparty List and Limits	TMP 1	6
Dealing: - Authorised dealers - Dealing limits - List of approved brokers - Deal Ticket pro-forma - Direct dealing list - Settlement transmission procedures	TMP 5	29
Reporting arrangements/Performance measurement Officers' responsibilities for reporting	TMP 6 TMP 2 TMP 5	35 19 29
Budget, Statement of Accounts, treasury-related information requirements for Auditors	TMP 7	40
Anti Money Laundering Procedures	TMP 9	47
Training and Qualifications	TMP 10	49
Contingency Arrangements	TMP 1	6
External Service Providers	TMP 11	50
References to Statute and Legislation	TMP 1	6
Corporate Governance	TMP 12	52
Non-financial Investments	TMP 13	53

## INTRODUCTION

The Audit Committee is required to approve the Treasury Management Practices, Principles and Schedules each year as a requirement of the Council's Treasury Management Strategy.

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in December 2017. The Code requires setting out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is now no longer a requirement to formally approve the Treasury Management Code, but instead the Council is now required by law to have regard to the Code.

Treasury Management is defined by CIPFA as:

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

'Investments' in the definition above covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial returns, including but not limited to investment property portfolios. Such non-financial assets are not managed as part of the Council's normal treasury management or under treasury management delegations, but they nonetheless require appropriate investment and risk management under the Code; a separate Treasury Management Practice (TMP 13) in this document is therefore included, specific to these investments.

The Code identifies three key principles:

- (1) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
- (2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds
- (3) They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

- (1) The Council will create and maintain, as the cornerstones for effective treasury management
  - a. A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- b. Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
- (2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- (3) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management
- (4) The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies

The Treasury Management Practices (TMPs) comprise:

TMP 1: Risk management

TMP 2: Performance measurement

TMP 3: Decision-making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

TMP 13 Non-financial Investments

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

## **I. TMP I: RISK MANAGEMENT**

- 1.1 All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.
- 1.2 The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below. Accordingly, it will ensure that robust due diligence procedures cover all external investment.
- 1.3 **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.
  - 1.3.1 **Principle:** *The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in **TMP4 Approved instruments, methods and techniques**, and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, as per the Treasury Management Strategy, or with whom it may enter into other financing arrangements.*

### 1.3.2 Schedule:

<p>Criteria to be used for creating/managing approved counterparty lists/limits</p>	<p>The Section 151 Officer is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by Council.</p> <p>The current criteria are contained in the Treasury Management Strategy.</p> <p>The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council's treasury management advisors will provide a counterparty list based on its criteria (determined at least annually) and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from main ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support where applicable, resolution mechanisms for failing financial institution's balance sheet liabilities, CDS information, the composition of an institution's balance sheet liabilities).</p> <p>Investment limits are set by reference to the lowest long-term rating from the agencies and other relevant factors, including external advice. The Council will also take into account information on corporate developments and market sentiment towards investment counterparties.</p> <p>The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.</p> <p>Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)</p> <p>Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.</p>
<p>Approved methodology for changing limits and adding/removing counterparties</p> <p>Risk management : creditworthiness deteriorates below the minimum criteria</p> <p>(a) ratings are placed on review for downgrade</p>	<p>The Section 151 Officer has delegated responsibility to add or delete counterparties and to review limits to the Council's treasury management advisors as detailed above.</p> <p>Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then</p> <ul style="list-style-type: none"> <li>- No new investments will be made;</li> <li>- Any existing investments that can be recalled or sold at no cost will be recalled or sold;</li> <li>- Full consideration will be given to the recall or sale of other existing investments with the affected counterparty.</li> </ul> <p>Where a credit rating is placed on 'review' for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known.</p> <p>The policy will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.</p>

Counterparty list and limits	<p>A full individual listing of banking* counterparties based on the criteria will be provided by the Council's treasury management advisors. As credit ratings etc. are subject to change without notice, any changes will be advised by the Council's treasury management advisors.</p> <p>* It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria, whether the security is secured or unsecured, and due diligence on the counterparty's creditworthiness will determine its selection for investment.</p>
Details of credit rating agencies' services and their application	<p>The Council considers the ratings of the main ratings agencies when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.</p> <p>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.</p>
Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	<p>The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.</p> <p>The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.</p> <p>In addition, the Council's officers read the quality financial press for information on counterparties.</p>
Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	<p>Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure.</p> <p>Group limits will be set for the above, in terms of monetary value/percentage of overall portfolio, where appropriate. Group limits for organisations under the same ownership will be set at the same level as the lead institution in that group.</p>

**1.4 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/service objectives will be thereby compromised.

**1.4.2 Principle:** *The Section 151 Officer will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.*

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

### 1.4.3 Schedule:

Cash flow and cash Balances	<p>The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a single cashflow forecast to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.</p> <p>The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.</p> <p>In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account.</p>
Short term investments	<p>The Council uses various Reserve Accounts, Call Accounts and Money Market Funds to manage its liquidity requirements These Accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.</p>
Temporary Borrowing	<p>Temporary borrowing up to 1 year through the money market is available should there be a cash flow deficit at any point during the year.</p> <p>At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.</p>
Bank Overdraft and standby facilities	<p>The Council has an authorised overdraft limit with its bankers Barclays of £100,000 at an agreed rate of 1% above base rate. The facility is used as a contingency.</p>
Policy in terms of borrowing in advance of need	<p>The Council may need to borrow in advance of need where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council may be exposed to the risk of both the loss of the borrowed sums, and also that investment and borrowing rates may change during the intervening period. These risks will be managed as part of the Council's overall treasury risk management.</p> <p>The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be 2 years, although linking loans with particular items of expenditure is not required.</p>

**1.5 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 has failed to protect itself adequately.

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

### 1.5.3 Schedule:

Proportions of fixed/variable rate debt/interest	<p>Borrowing/investments may be at a fixed or variable rate.</p> <p>In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The proportion of fixed and variable rate debt will be determined as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The proportion will be kept under review on a regular basis.</p>
Managing changes to interest rate levels	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>The Council may determine it is more cost effect in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.</p> <p>Alternatively, the Council may consider forward starting loans where the interest rate is agreed and fixed in advance but the cash is received in later years. This would enable certainty of cost be achieved without suffering a 'cost of carry' in the intervening period.</p> <p>Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Treasury Management Team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Strategic Treasury Management Board as necessary.</p> <p>For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.</p>
Negative interest rates	<p>Should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.</p>

**1.6 Exchange Rate Risk Management:** 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.

**1.6.2 Principle:** *The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.*

**1.6.3 Schedule:**

Exchange rate risk management	<p>This Council does not, on a day to day basis, have foreign currency transactions or receipts. The Council holds a Euro account for specific European joint working projects. Any unexpected receipts of foreign currency will be converted to sterling at the earliest opportunity. Where</p> <p>If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.</p> <p>At the present time statute prevents the Council borrowing in currencies other than Sterling.</p>
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**1.7 Inflation risk**

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

**1.7.1 Principle**

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

Investments over one year	Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
Contractual obligations linked to inflation	The Council will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

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

**1.8.1 Principle:** *The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.*

*It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.*

### 1.8.2 Schedule:

<p>Projected capital investment requirements</p>	<p>Three year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded revenue resources or reserves. Funding will be from internal or external borrowing, as decided.</p> <p>As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.</p> <p>The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.</p>
<p>Debt profiling, policies and practices</p>	<p>The Council will maintain through its treasury system Logotech reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing.</p> <p>To assist with long-term borrowing decision making the Council creates, with advice and assistance from its treasury advisor, a 'Liability Benchmark' which forecasts the need to borrow over the medium- to longer-term.</p> <p>Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.</p> <p>Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p>
<p>Policy on LOBO call options</p>	<p>The Council's debt portfolio includes loans borrowed on a LOBO (Lender's Option Borrower's Option) basis.</p> <p>The call dates for each LOBO loan are denoted within the Operations Folder and are referenced to the LOBO documentation.</p> <p>Prior to each call date, the Council will evaluate alternative funding sources for comparable interest rates/maturities. This will be discussed at the regular treasury meeting.</p> <p>If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the Council will thoroughly evaluate the new terms and additionally seek advice from the Council's advisor.</p> <p>It is important to remain within the timescale for the Council to exercise its option should the call be made, but not be rushed into a decision.</p>
<p>Policy concerning limits on revenue consequences of capital financings</p>	<p>The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.</p>

1.9 **Legal and Regulatory Risk Management:** The risk that the Council itself, 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.

1.9.1 **Principle:** *The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMPI(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.*

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

1.9.2 **Schedule:**

References to relevant statutes and regulations	<p>The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council such as:</p> <ul style="list-style-type: none"> <li>▪ CIPFA's Treasury Management Code of Practice and accompanying Guidance Notes</li> <li>▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments</li> <li>▪ CIPFA Standard of Professional Practice on Treasury Management</li> <li>▪ The Local Government Act 2003</li> <li>▪ The Local Authorities (Capital Finance and Accounting) (England ) Regulations 2003 SI 2003 No 3146, and subsequent amendments</li> <li>▪ The MHCLG's statutory Guidance on Minimum Revenue Provision (MRP)</li> <li>▪ The MHCLG's Guidance on Local Government Investments in England The Local Authorities (Contracting out of Investment Functions)</li> <li>▪ The Localism Act 2011</li> <li>▪ The Bank of England's 2017 Money Markets Code</li> <li>▪ Council's Constitution including: <ul style="list-style-type: none"> <li>• Standing Order relating to Contracts</li> <li>• Financial Regulations</li> <li>• Scheme of Delegation</li> </ul> </li> </ul>
Procedures for evidencing the organisation's powers/ authorities to counterparties	<p>The Council's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>

Required information from counterparties concerning their powers/ authorities	Investments shall only be made with institutions on the Council's authorised lending list or in securities which meet the Council's approved credit criteria.  The Council will only undertake borrowing from approved sources listed in TMP 4.
Statement on political risks and management of the same	Political risk is managed by: <ul style="list-style-type: none"> <li>• adoption of the CIPFA Treasury Management Code of Practice</li> <li>• adherence to Corporate Governance (<u>TMP 12 – Corporate Governance</u>)</li> <li>• adherence to the Statement of Professional Practice by the Section 151 Officer</li> <li>• the roles of the Audit Committee.</li> </ul>

**1.10 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 treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

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

<p>Details of systems and procedures to be followed, including Internet services</p>	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in <b>TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.</b></p> <p>I. <u>Electronic Banking and Dealing</u></p> <p>(a) <u>Banking</u>: The Council's online banking service provided by Barclays is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows:</p> <ul style="list-style-type: none"> <li>• Within the Treasury Management Department <ul style="list-style-type: none"> <li>○ Finance Business Partner</li> <li>○ Principal Technical Accountant</li> <li>○ Technical Accounting Officers</li> <li>○ Apprentice</li> </ul> </li> </ul> <p>Officer access is reviewed at least 6 monthly or as necessary.</p> <p>(b) Access to the Council's <u>treasury management system</u>, Logotech is limited to those officers listed below, each having a separate log-on and password.</p> <ul style="list-style-type: none"> <li>• Within the Treasury Management Department <ul style="list-style-type: none"> <li>○ Finance Business Partner</li> <li>○ Principal Technical Accountant</li> <li>○ Technical Accounting Officers</li> <li>○ Apprentice</li> </ul> </li> </ul> <p>These also are reviewed at least 6 monthly or as necessary.</p> <p>(c) <i>Access and use of the online ICD Portal, for our Money Market Funds and iDeal for Arlingclose dealing platform, is listed below:</i></p> <ul style="list-style-type: none"> <li>• For Fund Selection <ul style="list-style-type: none"> <li>○ Head of Financial Planning &amp; Reporting</li> <li>○ Finance Business Partner</li> </ul> </li> <li>• For Trading, the following members of the Treasury Management team <ul style="list-style-type: none"> <li>○ Principal Technical Accountant</li> <li>○ Technical Accounting Officers</li> </ul> </li> </ul> <p>Full procedure notes covering the day to day operation of the on-line banking system and the treasury management system are documented.</p> <p>2. <u>Standard Settlement Instructions (SSI) list</u> : a list is maintained of named officers who have the authority to transact loans and investments</p> <ul style="list-style-type: none"> <li>• Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list.</li> <li>• A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF.</li> <li>• <u>Payment Authorisation</u>:</li> <li>• Payments can only be authorised by an agreed cheque signatory(ies) of the Council, the list of signatories having previously been agreed with the Council's bank.</li> <li>• Other payments made using online banking system and BACS payments can be authorised by an approved list of signatories.</li> <li>• Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.</li> <li>• Separate officers will carry out (a) dealing and (b) recording of</li> </ul>
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Verification	<p>Loans and investments will be maintained in treasury management system which will include fees and brokerage paid.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> <p>When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.</p>
Substantiation	<ol style="list-style-type: none"> <li>1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each quarter and at the financial year end.</li> <li>2. Working papers are retained for audit inspection.</li> <li>3. The bank reconciliation is carried out monthly from the bank statement to Civica.</li> </ol>
Internal Audit	<p>Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See <u>TMP7 Budgeting, accounting and audit arrangements</u>.</p>
Contingency Management	<ol style="list-style-type: none"> <li>1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the service provider, DELT, to restore files, if necessary.</li> <li>2. Temporary off-site working facility: The officers who can avail of this facility following an emergency are The Treasury Management Officers who will individually be made aware of the procedures to follow.</li> <li>3. Electronic Banking System Failure: The Council's bank including the mode of obtaining balance details and information on inflow/outflow of monies and instructions for CHAPS payments can be made over the phone. Hard copies of contact details and account numbers are held onsite, and work mobile phones will be made available.</li> <li>4. A Disaster Recovery Policy is held by Plymouth City Council.</li> </ol>
Insurance Cover details	<p>The Council has Fidelity Guarantee cover. Details of the provider and cover are held by the Corporate Risk and Insurance Team.</p>

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

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

**1.11.2 Schedule:**

<p>Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc.)</p>	<p>Investment instruments used by the external fund managers are 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 pursuit of investment performance should be commensurate with this objective.</p> <p>Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk:</p> <ul style="list-style-type: none"> <li>(a) Maximum weighted average duration of the fund;</li> <li>(b) Maximum permitted exposure to gilts/bonds;</li> <li>(c) Maximum maturity of any instrument.</li> </ul> <p>Pooled Funds with a Variable Net Asset Value (VNAV) – The council may consider VNAV funds, as appropriate, in line with its TMSS and on advice from its treasury advisors.</p>
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<p>Accounting for unrealised gains/losses</p>	<p>The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.</p> <p>VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.</p> <p>When first adopting IFRS 9, the new accounting standard from FY 2018/19, the Council irrevocably elected to account for individual investments in “equity instruments” at fair value through other comprehensive income (FVOCI), which is very similar to the available for sale accounting. Investments purchased after the transition to IFRS 9 may also be elected to FVOCI upon acquisition. The Council made the election in the 2017/18 statement of accounts for the 31st March 2018 holdings in strategic bond funds, equity funds, multi asset/diversified funds and property funds.</p> <p>Where pooled funds are classed as capital expenditure, any fair value gains and losses charged to Finance I&amp;E will be reversed out to the Capital Adjustment Account via the MiRS. It might therefore appear that the election to FVOCI is unnecessary, however, since regulations might change in future and the election can only be made on initial recognition or on transition to IFRS 9, the Council has including capital expenditure funds in its election.</p>
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## 2 TMP 2: PERFORMANCE MEASUREMENT

**2.1 Principle:** *The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.*

*Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. CIPFA supports the use of risk benchmarks in measuring treasury management performance.*

*The performance of the treasury management function will be measured using the criteria set out below.*

### 2.2 Schedule:

<p>Policy concerning methods for testing value for money</p>	<p>Best value reviews will include the production of plans to review the way services are provided by</p> <ul style="list-style-type: none"> <li>▪ Challenging</li> <li>▪ Comparing performance</li> <li>▪ Consulting with other users and interested parties</li> <li>▪ Applying competition principles</li> </ul> <p>In order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p>
<p>Policy concerning methods for performance measurement</p>	<ul style="list-style-type: none"> <li>• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.</li> <li>• Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</li> <li>• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.</li> </ul> <p>Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to</p> <ul style="list-style-type: none"> <li>(i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and</li> <li>(ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.</li> </ul> <p>In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>

<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to the Treasury Management Meetings throughout the year.</p> <p>The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Council's Treasury Management advisers review the existing borrowing and investments and they produce a quarterly report to review the Council's position and benchmark this against other local authorities.</p> <p>The Council participates in the Treasury Management Advisor's quarterly investment benchmarking as well as the Treasury Management Advisor's annual Balance Sheet and Debt benchmarking.</p>
<p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p>	<p>Treasury management activity is reviewed half yearly against strategy and prevailing economic and market conditions through the treasury monitoring report to Strategic Treasury Board.</p> <p>The report will include:</p> <ul style="list-style-type: none"> <li>a) CFR Funding Ratio (gross borrowing as a % of the Loans CFR)</li> <li>b) Gross and Net Borrowing; Leverage Ratio (gross borrowing as a proportion of net borrowing)</li> <li>c) Average rate on gross borrowing vs weighted average maturity</li> <li>d) The effect of new borrowing and/or maturities on the above</li> <li>e) An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period)</li> <li>f) Total investments including average rate and maturity profile</li> <li>g) The rate of return on investments against their indices for internally and externally managed funds</li> <li>h) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)</li> <li>i) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy</li> <li>j) Daily bank balances: any major deviations from the target bank balances</li> </ul>

<p>Benchmarks and calculation methodology with regard to risk and return</p>	<p><b>Treasury Management Costs –</b>  Costs are split into Debt Management, Investment Management and Other. Investment Management is then shown as cost per £m invested, and Debt Management Costs per £m value of debt.</p> <p><b>Investment returns</b> are compared to 7-day LIBID  Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.</p> <ul style="list-style-type: none"> <li>• Externally Managed Investment Returns - the growth (i.e. increase in value of the fund) in respect of the monthly average value of the fund.</li> </ul> <p><b>Debt Management</b></p> <ul style="list-style-type: none"> <li>▪ Average Rate on external debt borrowed in financial year</li> <li>▪ Average period to maturity of external debt</li> <li>▪ Average period to maturity of new loans in financial year</li> <li>▪ Ratio of PWLB and market debt (beginning and end of period)</li> <li>▪ Ratio of fixed and variable rate debt (beginning and end of period)</li> </ul>
<p>Best value</p>	<p>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council’s stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations. These require that :</p> <ol style="list-style-type: none"> <li>a) For placing a contract with a value below £100k, at least 3 quotes are required, for contracts between £100k - £150k 5 quotes are required. Above this a formal tender is required.</li> <li>b) When placing a contract with a value in excess of £172.5k, a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken.</li> <li>c) If necessary, the Council will also consult with other users of similar services as well as with interested parties.</li> <li>d) The Council will also evaluate alternative methods service delivery.</li> </ol>

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

**3.1 Principle:** *The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time.*

*The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of investment decisions, the organisation should consider the risks to capital and returns and the implications for the organisation's future plans and budgets.*

*The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.*

#### 3.2 Schedule:

Capital expenditure and investment plans	<p>The 2017 Prudential Code requires the Council to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Council.</p> <p>Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.</p>
Major treasury decisions	<p>As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:</p> <ul style="list-style-type: none"> <li>a) Changes to Prudential Indicator(s) during the course of the financial year</li> <li>b) Options Appraisal to determine a funding decision</li> <li>c) raising a new long-term loan / long-term source of finance</li> <li>d) prematurely restructuring/redeeming an existing long-term loan(s)</li> <li>e) investing longer-term (i.e. in excess of 1 year)</li> <li>f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate)</li> <li>g) leasing</li> <li>h) change in banking arrangements</li> <li>i) appointing/replacing a treasury advisor</li> <li>j) appointing/replacing a fund manager</li> <li>k) any other determined by the Council</li> </ul>
Process	<p>The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>A rolling monthly cashflow forecast will be prepared for the ensuing 12 months and will include the financing, borrowing and surplus cash requirements of the Council, for the purpose of:</p> <ul style="list-style-type: none"> <li>• applying the strategy on a day to day basis</li> <li>• monitoring the results of the strategy</li> <li>• recommending amendments to the strategy to the Council where applicable during the course of the year.</li> </ul>

Delegated powers for treasury management	The Section 151 Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.
Issues to be addressed, evaluation, authorisation	<p>In exercising these powers, the Section 151 Officer and those to whom the treasury activity have been delegated will</p> <ul style="list-style-type: none"> <li>• have regard to the nature and extent of any associated risks to which the Council may become exposed and put in place effective mechanisms for risk management and mitigation;</li> <li>• be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;</li> <li>• be satisfied that the documentation is appropriate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;</li> <li>• ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits;</li> <li>• be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; is this being carried out.</li> <li>• follow best practice in implementing the treasury transaction.</li> </ul> <p>In exercising Borrowing and Funding decisions, the Section 151 Officer will with advice from the council's Treasury Management Advisors:</p> <ul style="list-style-type: none"> <li>• evaluate economic and market factors that may influence the manner and timing of any decision to fund;</li> <li>• consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;</li> <li>• consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use;</li> <li>• consider ongoing revenue liabilities created;</li> <li>• where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.</li> </ul> <p>The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.</p> <p>In exercising Investment decisions, the Section 151 Officer will:</p> <ul style="list-style-type: none"> <li>• Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;</li> <li>• consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;</li> <li>• the credit risk associated with unsecured investments with banks and building societies</li> <li>• consider the alternative investment products and techniques available if appropriate.</li> </ul>
Processes to be followed	The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

Evidence and records to be kept	<p>The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>Records and working papers will be maintained by the Council electronically.</p>
Other	<p>The Council will maintain in its Operating Folder for the call dates for all LOBOs. The Council's Treasury Strategy will also state the maximum exposure to LOBOs being called in that financial year.</p> <p>A LOBO is called; the new interest rate will be reviewed against other borrowing rates, and will be redeemed if necessary.</p>

## 4 TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

**4.1 Principle:** *The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMPI Risk Management**.*

The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate.”

### 4.2 Schedule:

Approved treasury management activities	<p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"><li>▪ Managing cashflow</li><li>▪ Capital financing</li><li>▪ Borrowing including debt restructuring and debt repayment</li><li>▪ Lending including redemption of investments</li><li>▪ Banking</li><li>▪ Leasing</li><li>▪ Managing the underlying risk associated with the Council’s capital financing and surplus funds activities.</li></ul> <p>The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
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<p>Approved capital financing methods and types/sources of funding</p>	<ul style="list-style-type: none"> <li>• Public Works Loans Board (PWLB) or its successor</li> <li>• long term money market loans including LOBOs</li> <li>• temporary money market loans (up to 364 days).</li> <li>• bank overdraft</li> <li>• loans from bodies such as the European Investment Bank (EIB)</li> <li>• Stock issues</li> <li>• Deferred Purchase</li> <li>• Government and EU Capital Grants</li> <li>• Plymouth Bond</li> <li>• Lottery monies</li> <li>• Other Capital Grants and Contributions <ul style="list-style-type: none"> <li>▪ Private Finance Initiative</li> <li>▪ Operating and finance leases</li> <li>▪ Hire purchase</li> <li>▪ Sale and leaseback</li> </ul> </li> </ul> <p><u>Internal Resources</u></p> <ul style="list-style-type: none"> <li>• Capital Receipts</li> <li>• Revenue Balances</li> <li>• Use of Reserves</li> </ul> <p><u>Approved sources of long-term and short-term borrowing include</u></p> <ul style="list-style-type: none"> <li>• Public Works Loan Board (PWLB) and its successor body</li> <li>• Any institution approved for investments</li> <li>• Any other bank or building society authorised to operate in the UK</li> <li>• UK public and private sector pension funds (except PCC Pension Fund)</li> <li>• Local Capital Finance Company and other special purpose vehicles created to enable local authority bond issues</li> <li>• UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues</li> <li>• Any other counterparty you intend to borrow from</li> </ul> <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p>
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<p>Approved investment instruments</p>	<p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now MHCLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will, where applicable, use the Council's credit criteria.</p> <p><i>examples</i></p> <ul style="list-style-type: none"> <li>▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities</li> <li>▪ Term deposits with banks and building societies</li> <li>▪ Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit)</li> <li>▪ Certificates of deposit</li> <li>▪ Callable deposits</li> <li>▪ Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)</li> <li>▪ Treasury Bills</li> <li>▪ Gilts</li> <li>▪ Bonds issued by multilateral development banks</li> <li>▪ Sterling denominated bonds by non-UK sovereign governments</li> <li>▪ Covered bonds (i.e. those with underlying collateral)</li> <li>▪ Unsecured corporate bonds</li> <li>▪ Reverse Repurchase Agreements ('reverse repos')</li> <li>▪ Investments with Registered Providers of Social Housing (i.e. housing associations)</li> <li>▪ Commercial paper</li> <li>▪ Floating Rate Notes</li> </ul>
<p>Investments that are not part of treasury management activity</p>	<p>These are investments which the Council invests in other financial assets and property primarily for financial return. Such activity includes loans supporting service outcomes, investments in subsidiaries and the investment property portfolio.</p> <p>The Council ensures that it has the same robust procedures for the consideration of risk and return and</p> <ul style="list-style-type: none"> <li>• ensures that all investments, including non treasury investments are covered in the Capital Strategy.</li> <li>• maintains a schedule of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees.</li> </ul>

Use of Derivatives	<p>The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).</p> <p>As the Council is unlikely to use derivatives, it is a requirement of the CIPFA Code to clearly detail our policy in the annual treasury strategy.</p> <p>The Council will only use the following standalone financial derivatives: Swaps, forwards, futures and options as these can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to</p> <p>Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.</p> <p>Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.</p> <p>Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.</p>
MiFID II professional client status	<p>The Council has reviewed its classification with financial institutions under MiFID II and has registered as a professional client.</p> <p>The consideration of skills and experience is particularly critical where the Council has requested to be treated as a professional client under MiFID II. Designation under MiFID II will be endorsed by the treasury strategy and reviewed frequently to ensure the designation remains appropriate.</p>

## **5 TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

**5.1 Principle:** *The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.*

*The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.*

*If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer 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 Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.*

*The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.*

*The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule below. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.*

### **5.2 Schedule:**

See Appendix I for Organisation Charts

**5.3 Schedule:**

<p>Limits to responsibilities at Executive levels</p>	<p>Full Council: receiving and reviewing</p> <ul style="list-style-type: none"> <li>• Prudential Indicators (Capital Expenditure, Authorised Limit, Operational Boundary)</li> <li>• Treasury Management Strategy including the annual Investment Strategy (unless a Capital Strategy is approved by Full Council in which case only the Investment Strategy needs to be approved by Full Council)</li> <li>• Capital Strategy</li> <li>• receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Audit Committee )</li> </ul> <p>The Cabinet:</p> <ul style="list-style-type: none"> <li>• approval of amendments to adopted clauses, treasury management policy statement, Treasury management strategy and capital strateg</li> <li>• budget consideration and approval</li> <li>• receiving and reviewing external audit reports and acting on recommendations</li> <li>• approving the selection of external service providers and agreeing terms of appointment</li> </ul>
<p>Principles and practices concerning segregation of duties</p>	<p>The segregation of duties will be determined by the Treasury Management Finance Business Partner.</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> <li>• the officers responsible for negotiating and closing treasury management deals also record the transactions in the cash book and completing cheque and bank reconciliations but are completely separate from the officer(s) who authorise the deals and any payments.</li> <li>• all borrowing/investments decisions must be authorised by the Section 151 officer or other nominated authorised officers (see below), depending on authorisation levels.</li> </ul>

<p>Statement of duties/ responsibilities of each treasury post Including absence cover arrangements</p>	<p>The Section 151 Officer</p> <ul style="list-style-type: none"> <li>• Submit budgets and budget variations in accordance with Financial Regulations and guidance.</li> <li>• Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance</li> <li>• Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy.</li> <li>• In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.</li> <li>• Establish a measurement and reporting process that highlights significant variations from expectations.</li> <li>• Submit regular treasury management reports as required to the council/cabinet/Audit Committee.</li> <li>• Receiving and reviewing management information reports.</li> <li>• Review the performance of the treasury management function and promote best value reviews.</li> <li>• Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.</li> <li>• Ensure the adequacy of internal audit, and liaising with external audit.</li> <li>• Recommend on appointment of external service providers in accordance with council standing orders.</li> <li>• Provide regular updates to relevant Cabinet Members.</li> <li>• Delegated authority to approve loans over 1 year and investments up to 10 years.</li> <li>• Delegated authority to approve loan repayments/rescheduling.</li> <li>• The Section 151 Officer may delegate his power to borrow and invest to the Head of Financial Planning &amp; Reporting, Finance Business Partners and relevant Senior Technical Accountants and Technical Accounting Officers as appropriate.</li> </ul>
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#### Head of Financial Planning & Reporting

- The responsibilities of this post will include covering the full responsibilities of the Section 151 Officer in their absence.
- Delegated authority to approve loans over 1 year and investments up to 50 years.
- Delegated authority to approve loan repayments/rescheduling.
- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Establish a measurement and reporting process that highlights significant variations from expectations.

#### Finance Business Partner

- Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, mid-year and annual Treasury Management report and Treasury Management Practices.
- Recommend early repayment of debt over one year and subject to the approval of the Section 151 Officer, or the Head of Financial Planning & Reporting arrange the repayment of these loans.
- Prepare budget for capital financing including all treasury management loan and investment activities including MTFS.
- Submitting management information reports to the Treasury Management Board, Section 151 Officer and Head of Financial Planning & Reporting.

#### Finance Business Partner and Principal Technical Accountant

- To provide cover in the absence of the Technical Accounting Officer and to cover the full responsibilities of this post.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Adherence to agreed policies and practices on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Authority to borrow for periods up to 1 year and lending up to 1 month. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Section 151 Officer or Head of Financial Planning & Reporting.
- Following approval by the Section 151 Officer undertake all borrowing over 1 year and deposits/investments up to 10 year maturity.
- Make recommendations on all lending up to 10 years and borrowing over 1 year maturity.
- Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits.

#### Technical Accounting Officer

- Negotiates and closes treasury management deals and records the transaction and payments obtaining authorisation as described above.
- Carrying out the execution of transactions
- Monitoring performance on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Using the counterparties list provided by the Council's Treasury Management advisers.
- Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments.

Cover is reviewed at least every 12 months, or as necessary.

Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.

	Cover in the absence of the relevant treasury management officer is provided by (depending on authorisation levels:
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	The Section 151 Officer (Chief Finance Officer) and the Head of Legal Services (Monitoring Officer), report into the Strategic Director for Transformation and Change, who in turn reports into the Chief Executive (Head of Paid Services).

## 5.4 Dealing

Authorised officers	<p>Responsible officer for borrowing/investment decisions :</p> <p>Borrowing activity:</p> <ul style="list-style-type: none"> <li>• Section 151 Officer</li> <li>• Head of Financial Planning &amp; Reporting</li> <li>• Senior Finance Analyst</li> <li>• Finance Business Partner</li> </ul> <p>Lending activity:</p> <ul style="list-style-type: none"> <li>• Section 151 Officer</li> <li>• Head of Financial Planning &amp; Reporting</li> <li>• Senior Finance Analyst</li> <li>• Finance Business Partner</li> </ul> <p>Authorising payments for borrowing/lending</p> <ul style="list-style-type: none"> <li>• Overnight; <ul style="list-style-type: none"> <li>○ Technical Accounting Officer</li> </ul> </li> <li>• Under 1 year <ul style="list-style-type: none"> <li>○ Finance Business Partner</li> </ul> </li> <li>• Over 1 year <ul style="list-style-type: none"> <li>○ Section 151 Officer</li> <li>○ Head of Financial Planning &amp; Reporting</li> </ul> </li> </ul> <p>Transaction recording:</p> <ul style="list-style-type: none"> <li>• Principal Technical Accountant</li> <li>• Technical Accounting Officer</li> </ul>
Dealing limits	<p>Internally Managed Investments:</p> <ul style="list-style-type: none"> <li>• Deposits up to 3 months with unlimited value with the Debt Management Office or £10m with a Local Government organisation or £20m with an approved bank or building society subject to the limits detailed in the Council's Annual Treasury Management Strategy and the approved lending list.</li> </ul>
List of approved brokers	Brokers used by the Council are named in TMP 11: External Service Providers

Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers are taped by the brokers, but not by the Council.
Direct dealing practices	<p>Direct dealing is carried out with institutions and with external Ly managed pooled funds identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits.</p> <p>Prior to undertaking direct dealing, the Council will ensure that each counterparty / fund has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.</p> <p>The template for the Council's Standard Settlement Procedures is included in the Operational Schedule.</p>
Inter-authority dealing	<p>The Council also deals with other local government authorities to invest and borrow funds for treasury management purposes.</p> <p>A record of all deals, together with their specific terms, will be maintained by the Council.</p>
Deal Ticket pro-forma	Deals will be recorded as per the deal ticket pro-forma (pro-forma maintained at operational level)
Settlement transmission procedures	<ul style="list-style-type: none"> <li>• settlements are made by CHAPS.</li> <li>• all CHAPS payments relating to settlement transactions require authorisation by the Finance Business Partners in Finance.</li> <li>• all CHAPS payments require 1 bank signatures</li> <li>• the details are transmitted online to the Council's bankers.</li> </ul>
Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.</p> <p>Investments</p> <ul style="list-style-type: none"> <li>• deal ticket authorising the investment</li> <li>• confirmation from the broker</li> <li>• confirmation from the counterparty</li> <li>• Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator</li> <li>• Chaps payment transmission document</li> </ul> <p>Loans:</p> <ul style="list-style-type: none"> <li>• deal ticket with signature to agree loan</li> <li>• confirmation from the broker</li> <li>• confirmation from PWLB/market counterparty</li> <li>• Chaps payment transmission document for repayment of loan.</li> </ul>
Arrangements concerning the management of counterparty funds	<ul style="list-style-type: none"> <li>• The Treasury Management Finance Business Partner has responsibility for updating the Council's records with any credit developments.</li> <li>• The Treasury Management Finance Business Partner is tasked with the responsibility for checking that records have been correctly updated to reflect any credit developments.</li> </ul>

## **6 TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

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

*As a minimum, the Council and Audit Committee will receive:*

- *An annual report on the strategy and plan to be pursued in the coming year*
- *A mid-year review*
- *An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.*

*The Strategic Treasury Management Board will receive regular monitoring reports on treasury management activities and risks.*

*The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.*

*The present arrangements and the form of these reports are outlined below.*

## 6.2 Schedule:

<p>Capital Strategy:</p>	<p>The 2017 Prudential Code includes a new requirement for local authorities to produce a Capital Strategy, which is to be a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments.</p> <p>The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.</p> <p>The Capital Strategy should include:</p> <ul style="list-style-type: none"><li>• Capital expenditure, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.</li><li>• Commercial activities, including due diligence processes, the Council's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.</li><li>• Long-term context in which capital expenditure decisions are made for the above, risk and reward considerations and impact on the achievement of priority outcomes.</li><li>• Debt management, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the Council's approach to treasury management.</li><li>• Other long-term liabilities, such as financial guarantees.</li><li>• Knowledge and skills, including a summary of that available to the Council and its link to the Council's risk appetite.</li></ul> <p>The strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.</p> <p>The Section 151 Officer will report explicitly on the affordability and risk associated with the Capital Strategy and, where appropriate, have access to specialised advice to enable the members to reach their conclusions.</p> <p>The Section 151 Officer will also ensure that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members.</p> <p>Although there is no requirement in the Code for this to be an annual document, nor for it to be approved before the start of the financial year, the Council will undertake this exercise in 2018/19.</p>
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<p>Frequency of executive reporting requirements</p>	<p>The Section 151 Officer will annually submit budgets and will report on budget variations as appropriate.</p> <p>The Section 151 Officer will submit the <b>Prudential Indicators</b> and the <b>Treasury Strategy Statement (including Annual Treasury Management Strategy)</b> and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Council before the start of the year.</p> <p>The <b>Annual Treasury Report</b> will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.</p> <p>A <b>Mid-Year Treasury Report</b> will be prepared by the Section 151 Officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Council during the year.</p>
<p>Content of Reporting: I. Prudential Indicators</p>	<p>The Council will set the following Prudential Indicators, revise if necessary, and in its annual / semi-annual reports publish 37actual outturn (where appropriate) in respect of:</p> <ul style="list-style-type: none"> <li>▪ Financing costs as a proportion of net revenue stream (estimate; actual)</li> <li>▪ Capital expenditure (estimate; actual)</li> <li>▪ Capital Financing Requirement (estimates; actual)</li> <li>▪ Authorised limit for external debt</li> <li>▪ Operational boundary for external debt</li> <li>▪ Actual external debt</li> </ul> <p>Treasury indicators</p> <ul style="list-style-type: none"> <li>▪ Upper and lower limits to maturity structure of fixed rate borrowing</li> <li>▪ Upper limit to total of principal sums invested longer than 364 days.</li> </ul> <p>The Prudential Indicators are approved and revised by Council and are integrated into the Council's overall financial planning and budget process.</p> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>

<p>2. Treasury Strategy Statement including the Annual Investment Strategy</p>	<p>The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> <li>• Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years</li> <li>• Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt</li> <li>• the extent to which surplus funds are earmarked for short term requirements</li> <li>• the investment strategy for the forthcoming year(s) (see below*)</li> <li>• the minimum to be held in short term/specified investment during the coming year</li> <li>• the interest rate outlook against which the treasury activities are likely to be undertaken.</li> </ul> <p>*Based on the HMCLG’s Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out</p> <ul style="list-style-type: none"> <li>▪ the objectives, policies and strategy for managing its investments;</li> <li>▪ the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council’s economic and investment outlook and the expected level of investment balances;</li> <li>▪ the limits for the use of Non-Specified Investments.</li> </ul> <p>The AIS will be integrated into the Treasury Strategy Statement.</p> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>3. Annual Treasury Report</p>	<p>The Section 151 Officer will produce an annual report for the Audit Committee on all activities of the treasury management function (including the performance of fund managers) as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> <li>▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the Financial Year;</li> <li>▪ the prevailing economic environment</li> <li>▪ a commentary on treasury operations for the year, including their revenue effects;</li> <li>▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council</li> <li>▪ compliance with agreed policies/practices and statutory/regulatory requirements</li> <li>▪ compliance with Prudential Indicators;</li> <li>▪ performance measures.</li> </ul> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>

<p>4. Mid-Year Treasury Report</p>	<p>The Section 151 Officer will produce a mid-year report for Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> <li>• Economic background</li> <li>• Economic forecast (including interest rates forecast)</li> <li>• Treasury Management Strategy Statement update</li> <li>• Performance versus benchmarks</li> <li>• Borrowing information (including premature repayment, new loans information)</li> <li>• Information on investments, including current lending list</li> <li>• Prudential indicators relating to treasury management</li> <li>• Governance framework and scrutiny arrangements</li> </ul> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>Content and frequency of management information reports</p>	<p>The Treasury Management Finance Business Partner provides information for the council's Treasury Management advisors who then provide a quarterly monitoring report to the Strategic Treasury Management Board.</p> <p>This report includes details of:</p> <ul style="list-style-type: none"> <li>• This report includes details of:</li> <li>• borrowing and investment activity undertaken including forward deals</li> <li>• brokers' fees</li> <li>• performance of internal and external investments against benchmark</li> <li>• cash flow monitoring</li> <li>• interest rates and forecasts</li> <li>• extent of compliance with the treasury strategy and reasons for variance (if any)</li> <li>• any other, e.g. details of daily bank balances against target balances</li> <li>• Prudential Indicator monitoring and compliance</li> </ul>

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

**7.1 Principle:** *The Section 151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.** The form which the Council's budget will take is set out in the schedule below.*

*The Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements.***

*The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.*

*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.*

### 7.2 Schedule:

Statutory/regulatory requirements	<p><b>Balanced Budget Requirement:</b> The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects,;</p> <p>(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and</p> <p>(b) revenue costs which flow from capital financing decisions.</p> <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
Proper accounting practice	<p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".</p>

Financial Statements	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none"> <li>▪ An explanatory foreword</li> <li>▪ Accounting policies, changes in accounting estimates and errors</li> <li>▪ Presentation of financial statements</li> <li>▪ Movement in reserves statement</li> <li>▪ Comprehensive income and expenditure statement</li> <li>▪ Balance sheet</li> <li>▪ Cash flow statement</li> <li>▪ Housing revenue account</li> <li>▪ Collection Fund (England)</li> <li>▪ Statement of Responsibilities</li> <li>▪ The Accounting Statements</li> <li>▪ Additional Financial Statements (Housing Revenue Account, Collection Fund)</li> <li>▪ Notes to the financial statements</li> <li>▪ Statements reporting reviews of internal controls or internal financial controls</li> <li>▪ Events after the reporting period</li> <li>▪ Related party disclosures</li> </ul>
Format of the Council's accounts	The current form of the Council's accounts is available within the Finance Department.
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.

<p>Treasury-related information requirements of external auditors</p>	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.</p> <p>Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.</p> <ul style="list-style-type: none"> <li>▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.</li> <li>▪ Prudential Indicators.</li> <li>▪ Treasury Management Strategy including Annual Investment Strategy.</li> </ul> <p><u>External borrowing:</u></p> <ul style="list-style-type: none"> <li>• New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)</li> <li>• Loan maturities.</li> <li>• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.</li> <li>• Analysis of loans outstanding at year end including maturity analysis.</li> <li>• Analysis of borrowing between long- and short-term</li> <li>• Debt management and financing costs <ul style="list-style-type: none"> <li>▪ calculation of (i) interest paid (ii) accrued interest</li> <li>▪ interest paid</li> </ul> </li> <li>• MRP calculation and analysis of movement in the CFR.</li> <li>• Bank overdraft position.</li> <li>• Brokerage/commissions/transaction related costs.</li> </ul>
	<p><u>Investments:</u></p> <ul style="list-style-type: none"> <li>• Investment transactions during the year including any transaction-related costs</li> <li>• cash and bank balances at year end</li> <li>• Short-term investments at year end</li> <li>• Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end</li> <li>• calculation of (i) interest received (ii) accrued interest</li> <li>• actual interest received</li> <li>• External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)</li> <li>• Basis of valuation of investments</li> <li>• Evidence of existence and title to investments (e.g. Custodian's Reports. Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.</li> </ul>

	<p><u>Cash Flow</u></p> <ul style="list-style-type: none"> <li>▪ Reconciliation of the movement in cash to the movement in net debt</li> <li>▪ Cash inflows and outflows (in respect of long-term financing)</li> <li>▪ Cash inflows and outflows (in respect of purchase/sale of long-term investments)</li> <li>▪ Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources</li> </ul> <p><u>Other</u></p> <ul style="list-style-type: none"> <li>▪ Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes</li> <li>▪ Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.</li> <li>▪ External advisors'/consultants' charges</li> </ul>
Internal Audit	<p>Internal Audit conducts a review of the treasury management function and probity testing, as per their annual plan.</p> <p>The internal auditors will be given access to treasury management information/documentation as required by them.</p>
Compliance with CIPFA Treasury Management and Prudential Codes	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
Costs for treasury management	<p>The budget for treasury management forms part of the Finance budget.</p>

## 8 TMP 8: CASH AND CASH FLOW MANAGEMENT

**8.1 Principle:** *Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMPI [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.*

### 8.2 Schedule:

Arrangements for preparing /submitting cash flow statements	<p>Cash flow forecasts will be viewed over one time horizons and will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>An <b>outline medium-term cash flow</b> model is prepared as part of the MTFS budget process, with projections for 2 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves.</p> <p>A <b>detailed annual cash flow</b> is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a monthly basis. It identifies the major inflows and outflows on a month by month basis.</p> <p>It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years.</p> <p><b>Daily cash flows</b> show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the excel cashflow document.</p>
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<p>Content and frequency of cash flow projections</p>	<p>The detailed annual cash flow model includes the following:</p> <ul style="list-style-type: none"> <li>• revenue income and expenditure based on the budget.</li> <li>• profiled capital income and expenditure as per the capital programme.</li> </ul> <p><b>Revenue activities:</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Revenue Support Grant</li> <li>▪ Precepts received</li> <li>▪ Non domestic rates receipts</li> <li>▪ NDR receipts from national pool</li> <li>▪ Council tax receipts</li> <li>▪ DSS / other government grants</li> <li>▪ Cash for goods and services</li> <li>▪ Other operating cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Salaries and payments on behalf of employees</li> <li>▪ Operating cash payments</li> <li>▪ Housing Benefit paid</li> <li>▪ Precepts paid</li> <li>▪ NNDR payments to national pool</li> <li>▪ Payments to the capital receipts pool</li> </ul> <p><b>Capital activities including financing</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Capital grants received</li> <li>▪ Sale of fixed assets</li> <li>▪ Other capital cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Purchase of fixed assets</li> <li>▪ Purchase of long-term investments</li> <li>▪ Other capital cash payments</li> </ul> <p><b>Financing, Servicing of Finance&gt;Returns on Investments</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ New long-term loans raised</li> <li>▪ New short-term loans raised</li> <li>▪ Interest received</li> <li>▪ Discount on premature repayment of loan</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Loan repayments</li> <li>▪ Premium on premature repayment of loan</li> <li>▪ Short-term investments</li> <li>▪ Capital element of finance lease rental payments</li> <li>▪ Interest paid</li> <li>▪ Interest element of finance lease rental payments</li> </ul>
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Monitoring, frequency of cash flow updates	<p>The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:</p> <ul style="list-style-type: none"> <li>• net RSG and NDR payments as notified;</li> <li>• actual salaries and other employee costs paid from account bank statements;</li> <li>• actual payments to Inland Revenue from general account bank statements;</li> <li>• actual council tax received;</li> <li>• actual housing benefit;</li> <li>• actual capital programme expenditure and receipts.</li> </ul>												
Bank statements procedures	<p>The Council receives online bank statements uploaded on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.</p>												
Payment scheduling	<p>The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> <li>• Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice.</li> <li>• All other creditors to be paid within 30 days of receipt of invoice.</li> </ul>												
Monitoring debtor/ creditor levels	<p>Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report which will include an analysis of debt by age and details and details of recovery status.</p> <p>The level of Creditor invoices being processed / remaining unpaid is monitored on a daily basis by the Transaction Centre. A report is produced within three days of the BACS run with details all BACS and cheque payments for the next day in advance and recorded in the cashflow spreadsheet.</p>												
Banking of funds	<p>Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the cashiers section are banked weekly.</p> <p>All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.</p>												
Listing of sources of information	<p>The treasury function receives cash flow information from the following persons/departments:</p> <table border="1" data-bbox="496 1608 1342 1821"> <thead> <tr> <th>Type of Information</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td>Capital Spend and Receipts</td> <td>Capital Accounting Team</td> </tr> <tr> <td>Government Grants</td> <td>Logasnet</td> </tr> <tr> <td>Payroll</td> <td>HR payroll department</td> </tr> <tr> <td>Debtors and Creditors</td> <td>Transaction Centre</td> </tr> <tr> <td>Loans and Deposits</td> <td>Treasury Management Team</td> </tr> </tbody> </table>	Type of Information	Source	Capital Spend and Receipts	Capital Accounting Team	Government Grants	Logasnet	Payroll	HR payroll department	Debtors and Creditors	Transaction Centre	Loans and Deposits	Treasury Management Team
Type of Information	Source												
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Debtors and Creditors	Transaction Centre												
Loans and Deposits	Treasury Management Team												
Practices concerning prepayments to obtain benefits	<p>The following practices concerning prepayments are followed to obtain benefits:</p> <p>All prepayments must be authorised by the approved signatory in the respective department.</p>												

## 9 TMP 9: MONEY LAUNDERING

**9.1 Principle:** *The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members 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 below.*

### 9.2 Schedule:

<p>Anti money laundering policy</p>	<p>This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
<p>Treasury documentation</p>	<p>The Council will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:</p> <ul style="list-style-type: none"> <li>– Awareness of what constitutes money laundering;</li> <li>– The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed;</li> <li>– Maintaining up-to-date direct dealing and SSI mandates with counterparties</li> </ul>
<p>Nomination of Responsible Officer(s)</p>	<p>(a) The Council has nominated the Section 151 Officer to be the responsible officer(s) to whom any suspicions relating to transactions involving the Council will be communicated.</p> <p>(b) The responsible officer(s) will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer(s) will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>

<p>Procedures for establishing the Identity of Lenders and Borrowers</p>	<ul style="list-style-type: none"> <li>(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.</li> <li>(b) The Council will not accept loans from individuals.</li> <li>(c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.</li> <li>(d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/ Prudential Regulation Authority's website.</li> <li>(e) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement.</li> <li>(f) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.</li> <li>(g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.</li> <li>(h) If the Council takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.</li> <li>(i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.</li> </ul>
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## 10 TMP 10: TRAINING AND QUALIFICATIONS

**10.1 Principle:** *The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.*

*The Section 151 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 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 below.*

### 10.2 Schedule:

Qualifications/ experience for treasury staff	Part or fully qualified or training towards qualification of one of the accepted accountancy bodies, i.e. CIPFA, ACA, ACCA, CIMA.  Member of the Association of Accounting Technicians (AAT) part or fully qualified.  Attend treasury training as provided by our Treasury Advisors.
Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are: <ul style="list-style-type: none"> <li>▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance &amp; Borrowing, Financial Management run by CIPFA and IPF</li> <li>▪ Any courses/seminars run by Treasury Management Consultants.</li> <li>▪ Attending CIPFA seminars and workshops</li> <li>▪ Training attended by those responsible for scrutiny of the treasury function</li> </ul> <p>The Council participates in a CIPFA Employer Accreditation Scheme for CPD purposes which is based on planning, recording and evaluating development.</p>
Records of training received by treasury staff	Treasury-related training records are maintained.
Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management.

## 11 TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

**11.1 Principle:** *The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will 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 Section 151 Officer, and details of the current arrangements are set out in the schedule below.*

### 11.2 Schedule:

Contract threshold	The Council's Financial Regulations require that a formal contract is in place with external service providers where the contract value is £200k and above. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of service providers and procedures and frequency for tendering services	<p>(a) Bankers to the Council Barclays Bank 3 Bedford Street Exeter EX1 1LX Tel: 0345 3010 927 Contract period: Commenced 1<sup>st</sup> April 2014</p> <p>(b) Treasury advisor Arlingclose Limited 35 Chiswell Street, London, EC1Y 4SE Tel: 08448 808 200 Contract period: Commenced 1<sup>st</sup> January 2015</p> <p>(c) External Fund Manager King &amp; Shaxson 6<sup>th</sup> Floor, Candlewick House, 120 Cannon Street London, EC4N 6AS</p>

<p>Details of service providers and procedures and frequency for tendering services (cont'd)</p>	<p>(d) Brokers:  It is considered good practice for the Council to have at least two brokers and to spread business between them.  Tullett Prebon Limited  Level 3, 155 Bishopsgate, London, EC2M 3TQ  Tel: 020 7200 7000</p> <p>Tradition (UK),  Beaufort House, 15 St. Botolph Street, London, EC3A 7QX.  Tel: 020 7198 1500</p> <p>London Currency Brokers,  LCB House, 8A The Broadway, Pitsea, Essex, SS13 3AY.</p> <p>Martin Brokers (UK) Plc,  1 Churchill Place, Canary Wharf, London, E14 5RD.  Tel: 020 7469 9000</p> <p>Sterling International Brokers Limited  1 Churchill Place, 18<sup>th</sup> Floor, London, EC4 5RD.  Tel: 020 7962 9960</p> <p>Arlingclose Limited  35 Chiswell Street, London, EC1Y 4SE  Tel: 08448 808 200</p>
<p>Regulatory status of services provided</p>	<p>The Council's external service providers are listed below, along with their regulatory status:</p> <p>All financial services providers are regulated by the Financial Conduct Authority (FCA).</p>
<p>Details of service provided by Treasury Advisor</p>	<p>The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments.</p>
<p>Bribery Act</p>	<p>The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers</p>

## 12 TMP 12: CORPORATE GOVERNANCE

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

*The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.*

### 12.2 Schedule:

Stewardship responsibilities	The S151 Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	The following documents are freely available for public inspection: <ul style="list-style-type: none"> <li>▪ Annual Statement of Accounts</li> <li>▪ Budget Book</li> <li>▪ 5 Year Capital Plan</li> <li>▪ Treasury Management Policy</li> <li>▪ Treasury Management Strategy</li> <li>▪ Capital Strategy</li> <li>▪ Budget Monitoring Reports</li> <li>▪ Annual and Half Year Treasury Report</li> </ul>
Council's website.	Financial information is additionally available on the Council's website.
Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Audit Committee and officer/member briefing sessions.

## TMP 13: INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

**13 The Council** recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all the organisation’s investments are covered in the capital strategy, investment strategy and will set out, where relevant, the Council’s risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities may differ from that for treasury management.

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

The Council recognises that many of the principles underlying TMPs 1 to 12 will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ significantly, and these are laid out below. A published schedule has been agreed by Council that sets out the investment practices for non-treasury investments and this will be complied with by all officers or agencies responsible for such investments.

### 13.1 Schedule

Register of non-treasury investments and financial guarantees	The Council will regularly updated a list of non-treasury investments, existing material investment, subsidiaries, joint ventures and liabilities and financial guarantees. An outline of such investments is in the Council’s Capital Strategy.
Schedules to be maintained	The published schedule is agreed by full Council and sets out the organisation’s investment management practices for non-treasury investments. Details are set out in the Council’s capital strategy and will cover the following areas: <ul style="list-style-type: none"> <li>• Risk management</li> <li>• Decision making, governance and organisation</li> <li>• Reporting and management information</li> <li>• Performance measurement and management</li> <li>• Training and qualifications.</li> </ul>
Risk Management	Follow TMPI and schedules as detailed previously, including investment and risk management criteria for any material non-treasury investment portfolios.  Due diligence processes and procedures are undertaken to reflect the additional risk the Council is taking on.
Independent and expert advice	Independent expert advice is sought for property purchases as part of the due diligence.
Training and qualifications	Relevant knowledge and skills in relation to non-treasury investments will be arranged and maintained

## Appendix I

### Organisation Chart for Capital and Treasury Management (FTE)

