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|---|----|---|--|
| REPORT TO:  |    | CABINET; COUNCIL  |  |
| DATE:   |    | 3 FEBRUARY 2016; 25 FEBRUARY 2016   |  |
| PORTFOLIO:  |    | Cllr Gareth Molineux - Resources  |  |
| REPORT AUTHOR:  |    | Amanda Martin – Principal Accountant<br>Stephen Brindle – Head of Accountancy Services  |  |
| TITLE OF REPORT:  |    | PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT & INVESTMENT STRATEGY 2016/17 – 2018/19.<br><br>MINIMUM REVENUE PROVISION POLICY STATEMENT 2016/17.<br><br>TREASURY MANAGEMENT POLICY STATEMENT 2016/17.<br><br>TREASURY MANAGEMENT PRACTICES 2016/17 |  |
| EXEMPT REPORT (Local Government Act 1972, Schedule 12A) | No | The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.  |  |
|   |    |   |  |
| KEY DECISION:   | No | If yes, date of publication:  |  |

## 1. PURPOSE OF REPORT

- 1.1 To set out the Council's policy and objectives with respect to treasury management, to explain how it will achieve its objectives and manage its activities; and to agree an investment strategy for 2016/17.

## 2 RECOMMENDATIONS

- 2.1 Cabinet are requested to recommend Council to:

- (i) adopt the prudential indicators and limits detailed in the report
- (ii) approve the treasury management strategy, and associated indicators, as set out in section 8 of the report
- (iii) approve the investment strategy as set out in section 13 of the report
- (iv) approve that the Minimum Revenue Provision (MRP) for year 2016/17 – Appendix 1
- (v) approve the Treasury Management Policy Statement 2016/17 – Appendix 2
- (vi) approve the Treasury Management Practices Statement 2016/17 – Appendix 3

### **3 REASONS FOR RECOMMENDATIONS**

#### **3.1 Treasury management is defined as:**

*The management of the Council's investment and 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.*

- 3.2 The Council is required to operate a balanced budget which means that cash raised during the year will meet cash expenditure. Part of treasury management is to ensure the cash flow is properly planned with cash available when needed. Surplus monies are invested in line with the Council's low risk preferences.
- 3.3 The second function of treasury management is funding the Council's capital plans. The plans give a guide to the future borrowing need of the Council. The management of this longer term cash flow may involve arranging long or short term loans or using longer term cash flow surpluses. Occasionally outstanding debt may be restructured to reduce Council risk or meet cost objectives.
- 3.4 The report has been prepared in line with the Treasury Management Code and Guidance (2013) written by The Chartered Institute of Public Finance & Accountancy (Cipfa). In the case of local authorities in England and Wales, the Code is significant under the provisions of the Local Government Act 2003. This requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in paragraph 24 require local authorities to have regard to this guidance. Acceptance of this report fulfills those obligations.

### **4 THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS**

- 4.1 The Prudential Code is a professional code that sets out the framework for self-regulation of capital spending and financing. This allows councils to invest in capital projects without any limit as long as such investment is affordable, prudent and sustainable. The Code was produced by Cipfa.
- 4.2 The Code requires the Council to agree and monitor a minimum number of prudential indicators (including limits and statements). They relate to affordability, prudence, capital expenditure, external debt and treasury management.
- 4.3 The indicators are purely for internal use and are not designed to be used as comparators between councils.

### **5 CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT**

- 5.1 There is currently no specific restriction by the Government on Local Authorities' capital investment, subject to reserve powers. The Government has withdrawn the use of Capital Grants for capital expenditure purposes since 1<sup>st</sup> April 2011 as part of its measures to reduce public sector expenditure. Hyndburn Council's future financial plans assume no reliance on any direct capital grants from Government; expenditure will be funded by external funding, section 106 monies, capital receipts and contributions from revenue.

- 5.2 The projections in these tables are based on current continuing operations and no assumptions have been included for availability of new external finance for capital schemes or assessment for major organisational restructure.

#### **ESTIMATED CAPITAL EXPENDITURE**

|              | <b>2014/15<br/>Actual<br/>£000</b> | <b>2015/16<br/>Revised<br/>Estimate<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> |
|--------------|------------------------------------|--|--------------------------------------|--------------------------------------|--------------------------------------|
| General Fund | 4,191                              | 5,834  | 4,893                                | 2,640                                | 785                                  |

The programme in 2016/17 and beyond is reducing due to the reduction in external funding and capital receipts which are available.

- 5.4 The Capital Financing Requirement (CFR) represents the Council's outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for, will increase the CFR.
- 5.5 The movement in the CFR over the next three years is dependent on capital expenditure decisions. The CFR is currently reducing due to the payment of Minimum Revenue Provision (MRP), a statutory annual revenue charge, which broadly reduces the borrowing need.
- 5.6 The limiting factors on the Councils ability to finance additional capital expenditure are:
- Whether the revenue resource is available to support in full the implications of both resource and running costs.
  - Use of Government reserve powers.
- 5.7 The Council's expectations for the CFR in the next three years are shown in the table below. The table also shows the expected external debt for each year.
- 5.8 A key risk for these indicators is that the level of government support and other funding sources may change.
- 5.9 If and when borrowing is used to finance the Authority's additional spend, the full cost of the borrowing will be included within the revenue budget and forecasts.

|                                      | <b>2014/15<br/>Actual<br/>£'000</b> | <b>2015/16<br/>Revised<br/>Estimate<br/>£'000</b> | <b>2016/17<br/>Estimate<br/>£,000</b> | <b>2017/18<br/>Estimate<br/>£,000</b> | <b>2018/19<br/>Estimate<br/>£,000</b> |
|--------------------------------------|-------------------------------------|---|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>Capital Financing Requirement</b> |                                     |   |                                       |                                       |                                       |
| CFR – General Fund                   | 11,058                              | 10,703  | 10,303                                | 10,007                                | 9,447                                 |
| <b>External Debt</b>                 |                                     |   |                                       |                                       |                                       |
| Borrowing                            | 9,595                               | 9,595   | 9,595                                 | 9,595                                 | 9,595                                 |
| Other Long Term Liabilities          | 396                                 | 322   | 271                                   | 376                                   | 201                                   |
| Total Debt 31 <sup>st</sup> March    | 9,991                               | 9,917   | 9,866                                 | 9,971                                 | 9,796                                 |

Borrowing outstanding as at year-end 2014/15 and 2015/16 is based on, respectively, the Council's actual /revised estimated gross borrowing. The borrowing amount is also within the Operational Boundary (as defined below).

Other long-term liabilities relate to finance leases.

## **6 MINIMUM REVENUE PROVISION**

- 6.1 Local Authorities are required each year to set aside an amount within their accounts to meet the cost of borrowings. This is historically known as the minimum revenue provision (for capital).
- 6.2 The MRP system was revised in March 2008 by regulation, which provides a duty on local authorities to make a prudent provision in respect of their debt levels rather than following a nationally set amount. In the statutory guidance issued by the Department for Communities & Local Government (DCLG), authorities were asked to prepare an Annual Minimum Revenue Provision (MRP) policy for approval by the Council. The four options are set out in (Appendix 1).
- 6.3 For year 2015/16, the Council's Budget has provided for MRP to be calculated on the regulatory basis (option 1). This will continue for 2016/17 for all current outstanding borrowing.
- 6.4 If and when the Council reconsiders the options (3) or (4), estimated life periods will be determined on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.
- 6.5 The Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the DCLG guidance would not be appropriate.

## **7 AFFORDABILITY PRUDENTIAL INDICATORS**

- 7.1 Within the prudential code framework, the Council is required to assess the affordability of the capital investment plans. These provide an indication of the impact of capital investment plans on the Councils overall finances.
- 7.2 **Actual and Estimates of the ratio of financing costs to net revenue stream**  
This indicator identifies the ratio of financing costs as a percentage of the net revenue budget.

### Ratio of Financing Costs to net revenue stream

|              | <b>2014/15<br/>Actual</b> | <b>2015/16<br/>Revised<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> | <b>2017/18<br/>Estimate</b> | <b>2018/19<br/>Estimate</b> |
|--------------|---------------------------|---|-----------------------------|-----------------------------|-----------------------------|
| General Fund | 4%                        | 4%                                      | 4%                          | 4%                          | 4%                          |

### 7.3 **Estimates of the incremental impact on capital investment decisions on the Council Tax**

This identifies the revenue impact of the proposed changes in the three year capital programme on Band D Council Tax.

#### Incremental impact from 2015/16 of capital investment decisions on the Band D Council Tax

|                      | <b>Proposed Budget<br/>2016/17</b> | <b>Forward Projection<br/>2017/18</b> | <b>Forward Projection<br/>2018/19</b> |
|----------------------|------------------------------------|---------------------------------------|---------------------------------------|
| Council Tax – Band D | £-0.73                             | £0.10                                 | £1.48                                 |

In calculating this indicator allowance is made for the impact of any borrowing supported by revenue grant from the Government.

## **8 TREASURY MANAGEMENT STRATEGY 2016/17 – 2018/19**

8.1 The importance of treasury management has increased as a result of the freedoms provided by the Prudential Code. Treasury Management covers the borrowing and investment activities and the effective management of associated risks; and the activities are strictly regulated by statutory requirements and a professional code of practice (CIPFA Code of Practice on Treasury Management in public services, as revised or supplemented by CIPFA from time to time).

8.2 This strategy covers the:

- current treasury position;
- expected movement in interest rates;
- Council's borrowing and debt strategy;
- Treasury Management indicators;
- Debt re-scheduling; and the
- Council's investment strategy.

### **8.3 Current Treasury Position**

|   | 2014/15<br>Actual<br>£000 | 2015/16<br>Estimate<br>£000 | 2016/17<br>Estimate<br>£000 | 2017/18<br>Estimate<br>£000 | 2018/19<br>Estimate<br>£000 |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| External Debt                               |                           |                             |                             |                             |                             |
| Debt at 1 <sup>st</sup> April               | 11,295                    | 9,595                       | 9,595                       | 9,595                       | 9,595                       |
| Expected Change in Debt                     | (1,700)                   |                             |                             |                             |                             |
| Other long-term liabilities                 | 396                       | 252                         | 271                         | 376                         | 201                         |
| Actual Gross Debt at 31 <sup>st</sup> March | 9,991                     | 9,847                       | 9,866                       | 9,971                       | 9,796                       |
| The Capital Financing Requirement           | 11,282                    | 10,702                      | 10,303                      | 10,007                      | 9,447                       |
| Under / (Over) Borrowing                    | 1,291                     | 855                         | 437                         | 36                          | (349)                       |

- 8.3.1 The current position of the treasury function, and its expected change in the future, introduces risk to the Council from an adverse movement in interest rates. The Prudential Code is constructed on the basis of affordability, part of which is related to borrowing costs and investment returns.
- 8.3.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. In general the requirement is that CFR exceeds gross debt. This is currently the situation in 2015/16, and it is expected to continue throughout 2016/17 and 2017/18. However in 2018/19 it is possible that the gross debt will exceed CFR. This will be due to the annual payment of Minimum Revenue Provision. The remaining debt would attract excessive premiums if it were prematurely repaid.
- 8.3.3 The requirement to have CFR exceed gross debt centers around providing an assurance that borrowing is not taking place for revenue purposes. However, as the Council is not borrowing any additional funds at this time, this is not an issue.

#### 8.4 **Expected movement in interest rates**

- 8.4.1 The Council appointed Capita Asset Services Ltd as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's view of the movement in interest rates.

|            | Qtr 1<br>2016 | Qtr 2<br>2016 | Qtr 3<br>2016 | Qtr 4<br>2016 | Qtr 1<br>2017 | Qtr 2<br>2017 | Qtr 3<br>2017 | Qtr 4<br>2017 | Qtr 1<br>2018 | Qtr 2<br>2018 | Qtr 3<br>2018 |
|------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Base Rate  | 0.50%         | 0.50%         | 0.50%         | 0.75%         | 0.75%         | 1.00%         | 1.00%         | 1.25%         | 1.25%         | 1.50%         | 1.50%         |
| 5 yr PWLB  | 2.00%         | 2.10%         | 2.20%         | 2.30%         | 2.40%         | 2.50%         | 2.60%         | 2.70%         | 2.80%         | 2.90%         | 3.00%         |
| 10 yr PWLB | 2.60%         | 2.70%         | 2.80%         | 2.90%         | 3.00%         | 3.10%         | 3.20%         | 3.30%         | 3.40%         | 3.50%         | 3.60%         |
| 25 yr PWLB | 3.40%         | 3.40%         | 3.50%         | 3.60%         | 3.70%         | 3.70%         | 3.80%         | 3.90%         | 4.00%         | 4.00%         | 4.10%         |
| 50 yr PLWB | 3.20%         | 3.20%         | 3.30%         | 3.40%         | 3.50%         | 3.60%         | 3.70%         | 3.80%         | 3.90%         | 3.90%         | 4.00%         |

- 8.4.2 Capita have also provided comprehensive economic forecasts which are available for inspection if required.

#### 8.5 **Borrowing and Debt Strategy 2016/17 – 2018/19**

- 8.5.1 The Prudential Code and the uncertainty over future interest rates increases the risks associated with the treasury strategy. As a result the Council needs to take a cautious approach to its treasury strategy.
- 8.5.2 The borrowing strategy for 2016/17 should be set to take short dated borrowings at any time in the financial year. Short term borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing.
- 8.5.3 The borrowing strategy will be to borrow on fixed rate terms rather than variable.

## 9 EXTERNAL DEBT OVERALL LIMITS

- 9.1 There are two Prudential Indicators which control the overall level of borrowing. These are:
- The authorised limit
  - The operational boundary
- 9.2 The authorised limit represents the Councils total borrowing limit, covering short and long term debt. It is the **maximum level** of borrowing which the authority is expected to experience at any point within the year, inclusive of headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and needs to be set by Members and later (if necessary) revised by Members.
- 9.3 The operational boundary is the **anticipated level** of external debt during the course of the year. This indicator is primarily an internal monitoring tool that provides a warning of the potential breach of the Authorised Limit for External Debt; and it also informs whether the plans regarding capital expenditure are on target and whether cash flows are proceeding as planned.

|   | <b>2015/16<br/>Revised<br/>Estimate<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> |
|---|--|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Authorised limit for external debt</b>     |  |                                      |                                      |                                      |
| Borrowing                                     | 35,000   | 35,000                               | 35,000                               | 35,000                               |
| Other long term liabilities                   | 0  | 0                                    | 0                                    | 0                                    |
| <b>Total</b>                                  | <b>35,000</b>                                    | <b>35,000</b>                        | <b>35,000</b>                        | <b>35,000</b>                        |
| <b>Operational boundary for external debt</b> |  |                                      |                                      |                                      |
| Borrowing                                     | 20,000   | 20,000                               | 20,000                               | 20,000                               |
| Other long term liabilities                   | 0  | 0                                    | 0                                    | 0                                    |
| <b>Total</b>                                  | <b>20,000</b>                                    | <b>20,000</b>                        | <b>20,000</b>                        | <b>20,000</b>                        |

- 9.4 The Authorised Limit includes the borrowing requirement for unexpected cash movements, which is permitted under the Code. Examples of unexpected cash movements include service delivery failure, or possible clawback of government monies.

## 10 EXTERNAL v INTERNAL BORROWING

|                      | <b>2014/15<br/>Actual<br/>£000</b> | <b>2015/16<br/>Probable<br/>outturn<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> |
|----------------------|------------------------------------|--|--------------------------------------|--------------------------------------|--------------------------------------|
| Actual external Debt | 9,991                              | 9,917  | 9,866                                | 9,971                                | 9,796                                |
| Cash balances        | 20,216                             | 20,268   | 4,920                                | 50                                   | 50                                   |
| <b>Net Debt</b>      | <b>(10,225)</b>                    | <b>(10,351)</b>                                  | <b>4,946</b>                         | <b>9,921</b>                         | <b>9,746</b>                         |

- 10.1 The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £10.351m.

- 10.2 The general aim of this treasury management strategy is to reduce the difference between the two debt levels in order to reduce the credit risk incurred by holding investments. However, measures previously taken have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
- 10.3 The next financial year is expected to continue to be one of historically abnormally low Bank Rate, at least for most of the financial year.
- 10.4 Against this background caution will be adopted with the 2016/17 treasury operations. The Deputy Chief Executive will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body.

## **11 LIMITS ON ACTIVITY**

- 11.1 The Prudential code in April 2004 introduced four indicators:
- Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
  - Upper limits of fixed rate exposure. Similar to the previous indicator this covers a maximum limit on fixed interest rates.
  - Maturity structures of borrowing. These gross limits are set to reduce the Council's exposure to large fixed sums falling due for refinancing at the same time.
  - Total principal funds invested for a period longer than 364 days.
- 11.2 The aim of the prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest or borrowing decisions which could impact negatively on the Council's overall financial position.
- 11.3 The proposed local limit of 100% on variable rate loan debt, as shown in the following table, relates to the potential situation where maturing fixed rate is not replaced.

### **Treasury Management Indicators**

|   | <b>2015/16<br/>Upper</b> | <b>2016/17<br/>Upper</b> | <b>2017/18<br/>Upper</b> |
|---|--------------------------|--------------------------|--------------------------|
| Limits on fixed interest rates                    | 0%                       | 100%                     | 100%                     |
| Limits on variable interest rates                 | 100%                     | 100%                     | 100%                     |
| Maximum principal sums invested for over 364 days | £3m                      | £3m                      | £3m                      |



11.4 The Council must set upper and lower limits for the maturity structure of its borrowings.

#### **Proposed limits for Maturity Structure of Borrowing**

| <b>Period to maturity of debt</b> | <b>Upper Limit</b> | <b>Lower Limit</b> |
|-----------------------------------|--------------------|--------------------|
| Under 12 months                   | 100%               | 0%                 |
| 12 months and within 24 months    | 0%                 | 0%                 |
| 24 months and within 5 years      | 0%                 | 0%                 |
| 5 years and within 10 years       | 0%                 | 0%                 |
| 10 years and above                | 0%                 | 0%                 |

The maturity in the under 12 month period relates to a short term fixed rate loan and also Lender Option, Borrower Option (LOBO) loans. From 2011/12 the maturity date of a LOBO is now deemed to be the next call date. The LOBO's have six monthly call dates.

## **12 DEBT RESCHEDULING**

12.1 CIPFA issued an updated Statement of Recommended Accounting Practice (SORP 2007) incorporating, for financial instruments, Financial Reporting Standard 25 (Presentation & Disclosure), FRS 26 (Recognition & Measurement) and FRS 29 (replacement disclosure requirements). This presented major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premiums and discounts arising from debt rescheduling. The SORP removed the ability to spread premiums and discounts arising under debt rescheduling over the life of replacement borrowing.

In the main, the above mentioned financial reporting standards have converged with international standards for 2011/12 and onwards reporting.

In exceptional circumstances the Deputy Chief Executive may approve rescheduling under emergency powers, e.g. where swift action is required to secure favourable rates.

This action would be reported to Cabinet.

## **13 INVESTMENT STRATEGY**

13.1 The Council will have regard to the DCLG revised guidance on Local Government Investments; and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance notes revised in 2011. The Council's investment priorities are:-

- The security of capital
- The liquidity of its investments

The Council will also aim to achieve optimum return on its investments commensurate with proper levels of security and liquidity.

13.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council does not engage in the activity.

13.3 If the Council is in a position where it has surplus funds for a period of time, competitive quotations will be sought from a range of institutions with a view to making a temporary investment. Investments will be placed with the most cost-effective institution, taking dealing

costs into account. The Council uses the services of City brokers to identify the optimum investment opportunities.

13.4 The Council uses the credit ratings available from the three major credit rating agencies; Fitch, Moodys and Standard & Poor, to derive its lending criteria. All credit ratings will be monitored weekly. The Council is alerted to changes in Credit ratings through its use of the Capita Asset Services Ltd creditworthiness service. The creditworthiness service uses a sophisticated modeling approach with credit ratings from all three credit rating agencies. If a downgrade results in the counterparty no longer meeting the Councils minimum criteria, its further use as a new investment will be withdrawn immediately. If required new counterparties which meet the criteria are added to the list. The Credit ratings are supplemented by use of Credit Default Swap (CDS) spreads which give an early warning of likely changes in credit ratings.

13.5 Fully Nationalised Banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign to them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank has failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the credit worthiness of the Government itself i.e. deposits made with them are effectively being made to the government. They also have a support rating of 1; in other words, on both counts, they have the highest rating possible.

The other situation which could arise is where the Bank hasn't been fully nationalised but receives support from the UK Government, in which case the individual rating is E i.e. the Fitch definition is "A bank which requires external support".

13.6 Investment instruments identified for use in the financial year are classified as 'Specified' and 'Non-Specified' Investments. Counterparty limits will be as set through the Council's Treasury Management Practices.

13.7 Specified Investments are sterling investments of not more than one-year maturity. These are low risk assets and the possibility of loss of principal or investment income is very low. The investments are defined as:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. An investment scheme that has been awarded a high credit rating by a credit rating agency such as Standard and Poor, Moody's or Fitch.
4. Pooled Investment Vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

13.8 Non Specified Investments include any other type of investment (i.e. not defined as specified above). These are sterling investments with:

1. Securities admitted to the Official List of the Stock Exchange, which are guaranteed by the UK Government (such as supranational bonds).
2. Gilt edged securities with a maturity of greater than one year.
3. Institutions not meeting the basic security requirements under the specified investments.

4. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of more than one year.

At the present time, the Council has no immediate plans to invest in non specified investments, in order to maintain the high security and liquidity of Council funds.

## **14 TREASURY MANAGEMENT PRACTICES (TMP)**

CIPFA recommend that all of the following TMPs should be adopted, with the schedules where appropriate to the scope and nature of the treasury management activities undertaken:

### **TMP1 Risk Management**

The Deputy Chief Executive will implement and monitor all arrangements for the identification, management and control of treasury management risk, reporting at least annually on this; relevant issues include liquidity risk management, interest rate risk management, security of investments, refinancing risk management, legal and regulatory risk management, fraud error and corruption issues, market risk management.

### **TMP2 Best Value and Performance Measurement**

Commitment to best value and performance measurement in treasury management activities.

### **TMP3 Decision-making and Analysis**

Full records to be maintained.

### **TMP4 Approved Instruments, Methods and Techniques**

To list the instruments, methods and techniques that the authority will use to ensure that any risks involved are fully understood and evaluated.

### **TMP5 Organization, clarity, segregation of responsibilities, dealing arrangements.**

Clear written statements of responsibilities, and arrangements for absence cover.

### **TMP6 Reporting requirements and management information arrangements**

As a minimum, reports to be submitted to the Executive and Council on the strategy and plan to be pursued in the coming year, and on performance in the past year.

### **TMP7 Budgeting, accounting and audit arrangements**

To be fully documented.

### **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Deputy Chief Executive and aggregated for cash flow and investment management purposes. Cash flow projections to be prepared on a regular and timely basis.

### **TMP9 Money laundering**

Where appropriate, to be alert to the possibility of money laundering, and to maintain procedures for verifying and recording the identity of counterparties etc.

### **TMP10 Staff training and qualifications**

Recognising the importance of ensuring that staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them.

### **TMP11 Use of external service providers**

Recognising the potential value of employing external providers of treasury management services in order to access specialist skills and resources, subject to evaluation of costs and benefits and proper documentation.

### **TMP12 Corporate governance**

Commitment to the pursuit of proper corporate governance and the key recommendations of this Code; accordingly, the treasury management function to be undertaken with openness and transparency, honesty, integrity and accountability.

A full description of each TMP is at appendix 3.

## **15 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS**

The Council uses Capita Asset Services Ltd as its external treasury management advisor.

The Council recognises that responsibility for treasury management stays with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

It also recognises there is value in employing external providers of treasury management services in order to acquire specialist skills and resources.

## **16 TREASURY MANAGEMENT STRATEGY IN-YEAR AND YEAR-END REPORTING**

As well as the half-year update report to Cabinet , treasury management features, when appropriate, in revenue budget monitoring reports during the year; and the annual outturn of treasury management and indicators is reported to Cabinet as soon as practicable after the year end. In addition, in light of the revised code of practice, the Resources Overview and Scrutiny Committee was given by the Full Council, from March 2010 via addition to terms of reference, a role to monitor and review the Council's treasury management strategy and policies; and changes made to the Financial Procedures Rules include for that.

## 17 IMPLICATIONS

| Issue  | Comments   |
|--|--|
| Financial Implications (including any future financial implications for the Council)   | There are none arising directly from this report.  |
| Legal and human rights implications  | The Local Government Act 2003 (part 1) and associated regulations gave statutory recognition to the Prudential Code. Therefore there is a statutory backing to the background and local purpose of the report.<br>Treasury Management activities of local authorities are prescribed by statute – the source of powers is, in England & Wales, the 2003 Act. 'Statutory Guidance' on investment is given by the DCLG to local authorities. |
| Assessment of Risk   | There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy. Risks arising from Financial Instruments are also described and addressed in the Statement of Accounts' related note.   |
| Equality and diversity implications<br><i>A <a href="#">Customer First Analysis</a> should be completed in relation to policy decisions and should be attached as an appendix to the report.</i> | There are no specific implications for customers' equality and diversity arising directly from the recommendations in this report.   |

## 18 LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

### List of Background Papers:

- [Part 1](#) of the Local Government Act 2003 and related regulations
- [The Prudential Code for Capital Finance in Local Authorities \(CIPFA 2011\)](#)
- CIPFA Code of Practice on Treasury Management in Public Services (revised 2011)
- The Council's [Policy Statement on Treasury Management](#) (Full Council February 2015)
- The Council's [Policy on Treasury Management Practices](#) ( Full Council February 2015)
- Capital Programme reports
- Revenue Budget reports.

## 19 FREEDOM OF INFORMATION

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

## **Appendix 1**

# **Minimum Revenue Provision Policy Statement 2016/17**

## **Options in statutory guidance**

### **Option 1: Regulatory method**

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported by Government through the 'SCE allocation' (supported capital expenditure).

### **Option 2: Capital Financing Requirement method**

This is a variation on Option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

### **Option 3: Asset Life method.**

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure.

There are two methods of calculating charges under option 3:

- a. equal instalment method – equal annual instalments;
- b. annuity method – annual payments gradually increase during the life of the asset.

### **Option 4: Depreciation Method**

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

## **Appendix 2**

# **Treasury Management Policy Statement 2016/17**

Hyndburn Borough Council defines its treasury management activities as follows:-

1. The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.





**Hyndburn Borough Council  
Treasury Management Practices 2016/17**

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# TMP1 Risk Management

The responsible officer – Deputy Chief Executive - 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 below.

## 1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation 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. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### 1.1.1 Policy on the use of credit risk analysis techniques

This organisation will use the Capita Asset Services creditworthiness service based on using the Fitch matrix tabled below and secondly applying the colours determined by minimum combinations of ratings to derive maturity limits as follows: -

**Fitch Table**

| Minimum ratings 1 | Fitch       | Fitch       |
|-------------------|-------------|-------------|
| Short term        | F1+         | F1          |
| Long term         | AA-         | A           |
| Viability         | AAA to A+   | AAA to A+   |
| support           | 1 or 2 or 3 | 1 or 2 or 3 |

**Colour Table**

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document “Capita Asset Services Credit Policy 2013-14” and “Modification to the Capita Suggested Methodology November 2015” for a full explanation. This document is available on the Capita website ([www.capitaassetservices.com](http://www.capitaassetservices.com))

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. The Treasury Management Consultant will also provide regular updates of changes to all ratings relevant to the council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.
5. Credit ratings for individual counterparties can change at any time. The Principal Accountant is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties
6. The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
  - The quality financial press

- Market data
- Information on government support for banks
- The credit ratings of that government support

7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

#### **Maturities up to a maximum of 1 year**

| <b>Organisation</b>                         | <b>Minimum 'High' Credit Criteria</b>      | <b>Max Amount</b> | <b>Max Period</b>                       |
|---|--|-------------------|---|
| Debt Management Agency Deposit Facility     | -  | £2m               | 1 year                                  |
| Term Deposits - Local Authorities           | -  | £2m               | 1 year                                  |
| Term Deposits – Banks & Building Societies  | Short-term, Long-term, Viability, Support. | £2m               | Colour Code Dependant but max of 1 year |
| Liquid Deposits - Nat West Bank             | Short-term, Long-term, Viability, Support. | £3m               | 1 year                                  |
| Money Market Funds                          | AAA long-term rating                       | £2m               | 1 year                                  |
| UK Government Support to the banking sector | Sovereign Rating                           | £2m               | 1 year                                  |

#### **Maturities in excess of 1 year**

| <b>Organisation</b>                           | <b>Minimum 'High' Credit Criteria</b>      |
|---|--|
| Debt Management Agency Deposit Facility       | -  |
| Term Deposits - Local Authorities             | -  |
| Term Deposits – Banks & Building Societies ** | Short-term, Long-term, Viability, Support. |

|   |                      |
|---|----------------------|
| Money Market Funds                          | AAA long-term rating |
| UK Government Support to the banking sector | Sovereign Rating     |

8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
- Maximum amount to be placed with any one institution - £2m - with the exception of a deposit in Nat West Liquidity Account where the investment will not exceed £3m.
  - Group limits where a number of institutions are under one ownership – maximum of £10m.
9. Investments will not be made with counterparties that do not have a credit rating in their own right. The definition of **‘high credit quality’** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.

## 1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation’s business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### 1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council’s main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

### 1.2.2. Details of:

#### a. Standby facilities

At the end of each financial day any unexpected surplus funds are transferred to the Nat West Liquidity Account which is available from the Council’s main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.

#### b. Bank overdraft arrangements

There is no overdraft arrangement for the Council's accounts. Bank Charges will be calculated on overdrawn amounts at base rate (currently 0.5%) plus 4%.

c. Short-term borrowing facilities

The Council may access temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £10m.

d. Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

### **1.3 Interest Rate Risk Management**

There is a risk that fluctuations in the levels of interest rates would create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

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

#### **1.3.1 Details of approved interest rate exposure limits**

The Treasury Indicators for 2016/17 include a figure of £35 million for External Debt – Authorised Limit.

#### **1.3.2 Trigger points and other guidelines for managing changes to interest rate levels**

The Treasury Indicators for 2016/17 include a figure of £20 million for External Debt – Operational Boundary.

#### **1.3.3 Upper limit for fixed interest rate exposure**

The Prudential Indicators for 2016/17 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at fixed interest rates.

#### **1.3.4 Upper limit for variable interest rate exposure**

The prudential Indicators for 2016/17 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at variable interest rates.

#### **1.3.5 Policies concerning the use of instruments for interest rate management.**



a. Forward Dealing

Consideration will be given to dealing from forward periods dependent upon market conditions.

b. Callable Deposits

The Council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

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

Use of LOBOs are considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Deputy Chief Executive.

## **1.4 Exchange Rate Risk Management**

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

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

## **1.5 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.

This 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 overreliance on any one source of funding if this might jeopardise achievement of the above.

### **1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

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

- a) the generation of cash savings at minimum risk;

- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

All rescheduling will be reported to the Cabinet at as soon as possible after the debt rescheduling exercise.

#### **1.5.2. Projected Capital Investment Requirements**

The Deputy Chief Executive will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

#### **1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

The Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

### **1.6 Legal and Regulatory Risk Management**

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

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

### 1.6.1. References to Relevant Statutes and Regulations

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

#### English Authorities: -

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position
- Requirement to set a balanced budget – Local Government Finance Act 1992 section 32
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no.265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I.2012 no 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2012

- S.I. 2013 no 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- 2012 no.1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulation 2012

### **Guidance and codes of practice**

- CLG Revised Guidance on Investments 1.4.2010
- CLG guidance on minimum revenue provision – Feb 2012
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

### **1.6.2. Procedures for Evidencing the Council's Powers/Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

#### **Required Information on Counterparties**

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

### **1.6.3 Statement on the Council's Political Risks and Management of Same**

The Deputy Chief Executive shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.6.4 Monitoring Officer**

The monitoring officer is the Executive Director – Legal & Democratic Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.6.5. Chief Financial Officer**

The Chief Financial Officer is the Deputy Chief Executive; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

## **1.7 Fraud, Error and Corruption, and Contingency Management**

There is a risk that an organisation could fail 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 fail to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This is commonly referred to as operational risk.

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

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

#### **1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services**

##### **Authority**

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

##### **Procedures**

- Electronic Banking procedures – A password and PIN number is required to access the Bankline system which is used to make electronic payments.
- CHAPS payments – Payments can only be authorised by agreed officers who have been notified to the current provider of our banking services.

##### **Investment and borrowing transactions**

- A detailed register of all loans and investments is maintained by the treasury team. This is regularly checked to the ledger.
- Adequate and effective cash flow forecasting records are maintained on spreadsheets to support the decision to lend or borrow.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Principal Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Principal Accountant for resolution.

### **Regularity and security**

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals..
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

### **Checks**

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- A debt charge/investment income listing is produced monthly when a review is undertaken against the budget for interest earnings and debt costs.

### **Calculations**

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Treasury Team.

## **1.7.2. Emergency and Contingency Planning Arrangements**

### **Disaster Recovery Plan.**

Treasury Management related files (word and excel) are stored on the Council's 'H' Drive with arrangements for contingency/back-up. Backup facilities can be accessed off site.

In the event of a 'Bankline System' failure, manual procedures would be followed with information being provided from the Council's Bankers by telephone.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

### 1.7.3. Insurance Cover Details

#### **Fidelity Insurance**

The Council has 'Fidelity' insurance cover with Zurich Municipal Insurance. This covers the loss of cash by fraud or dishonesty of employees.

This cover is limited to £2m for 12 designated officers, and for all other officers £140k, for any one event with an excess of £5,000 for any one event

#### **Officials Indemnity Insurance**

The Council also has an 'Officials Indemnity' insurance policy with Travellers which covers loss to the Council from the actions and advice of its officers in the course of their duty which are negligent and without due care. This cover is limited to £2m for any one event with an excess of £25,000 for any one event.

#### **Business Interruption**

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal Insurance

### 1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

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

#### **1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)**

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

### **TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS**

The guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

- **Specified Investments:** All such investments will be sterling denominated with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.
- **Non-Specified Investments:** These are investments which do not meet the Specified Investment Criteria.



| <b>Organisation – Specified unless otherwise stated</b> | <b>Minimum credit criteria / colour band</b>          | <b>Max Amount</b> | <b>Max Period</b>   |
|---|---|-------------------|---|
| Term deposits with UK Clearing Banks                    | Purple<br>Blue<br>Orange<br>Red<br>Green<br>No Colour | £2m               | Up to 2 years<br>Up to 1 year*<br>Up to 1 year<br>Up to 6 months<br>Up to 100 days<br>Not for use |
| Liquid deposits with Nat West Liquidity Account         | Purple<br>Blue<br>Orange<br>Red<br>Green<br>No Colour | £3m               | Up to 2 years<br>Up to 1 year*<br>Up to 1 year<br>Up to 6 months<br>Up to 100 days<br>Not for use |
| Term deposits with UK Building Societies                | Purple<br>Blue<br>Orange<br>Red<br>Green<br>No Colour | £2m               | Up to 2 years<br>Up to 1 year*<br>Up to 1 year<br>Up to 6 months<br>Up to 100 days<br>Not for use |
| UK Local Authorities                                    | N/A   | £2m               | Up to 1 year  |
| Money Market Funds                                      | Minimum AAA   | £2m               | Up to 1 year  |

\* Nationalised and part Nationalised banks

# **TMP 2 Performance Management**

## **2.1 Evaluation and Review of Treasury Management Decisions**

The Council has a number of approaches to evaluating treasury management decisions: -

- a. reviews with our treasury management consultants
- b. annual review after the end of the year as reported to full council
- c. half yearly reports to Cabinet

### **2.1.1 Reviews with our treasury management consultants**

The treasury management team holds reviews with our consultants every 12 months to review the performance of the investment and debt portfolios.

### **2.1.2 Review reports on treasury management**

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. compliance with Prudential and Treasury Indicators
- h. other

### **2.1.3 Half Yearly Monitoring Reports**

A half yearly Report on Treasury Management is submitted to Cabinet in October which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for the first 6 months

### **2.1.4 Comparative reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with

similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- other

## **2.2 Benchmarks and Calculation Methodology:**

### **2.2.1 Debt management**

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

### **2.2.2 Investment.**

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
- b. Capita Asset Services model

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

## **2.3 Policy Concerning Methods for Testing Value for money in Treasury Management**

### **2.3.1 Frequency and processes for tendering**

Tenders are normally awarded on a 3 year basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

### **2.3.2 Banking services**

The Council's banking arrangements are to be subject to competitive tender unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

### **2.3.3 Money-broking services**

The Council may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

### **2.3.4 Consultants'/advisers' services**

This Council's policy is to appoint full-time professional treasury management consultants (Capita Asset Services) and separate leasing advisory consultants (Chrystal Consulting Ltd).

### **2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)**

The Council's policy is not to appoint external investment fund managers.

## **TMP 3 Decision-Making and Analysis**

### **3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:**

#### **3.1.1 Records to be kept**

All loan transactions are recorded on a spreadsheet.

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

- Daily cash balance forecasts
- Money market rates obtained by telephone and e-mail from brokers or direct
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

#### **3.1.2 Processes to be pursued**

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring (if applicable)
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

#### **3.1.3 Issues to be addressed.**

##### **3.1.3.1. In respect of every treasury management decision made the Council will:**

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained

- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

**3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

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

**3.1.3.3 In respect of investment decisions, the Council will:**

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

## **TMP 4 Approved Instruments, Methods and Techniques**

### **4.1 Approved Activities of the Treasury Management Operation**

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

### **4.2 Approved Instruments for Investments**

Refer to the Annual Investment Strategy (updated February 2016)

### **4.3 Approved Techniques**

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

### **4.4 Approved Methods and Sources of Raising Capital Finance**

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

| <b>On Balance Sheet</b>                        | <b>Fixed</b> | <b>Variable</b> |
|--|--------------|-----------------|
| PWLB   | ●            | ●               |
| Market (long-term)                             | ●            | ●               |
| Market (temporary)                             | ●            | ●               |
| Market (LOBOs)                                 | ●            | ●               |
| Local temporary                                | ●            | ●               |
| Local Bonds                                    | ●            |                 |
| Overdraft                                      |              | ●               |
| Internal (capital receipts & revenue balances) | ●            | ●               |
| Leasing (not operating leases)                 | ●            | ●               |
| Deferred Purchase                              | ●            | ●               |



**Other Methods of Financing**

Government and EC Capital Grants

Lottery monies

Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Deputy Chief Executive has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

**4.5 Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

**4.6 Borrowing Limits**

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

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

### **5.1 Allocation of responsibilities**

#### **(i) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

#### **(ii) Full Council / Cabinet**

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

#### **(iii) Resources Overview & Scrutiny Committee**

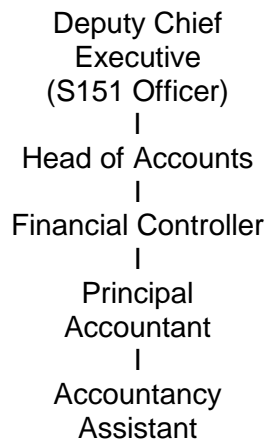
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

### **5.2 Principles and Practices Concerning Segregation of Duties**

5.2.1 The following duties are undertaken by separate officers: -

|                               |   |
|-------------------------------|---|
| Dealing                       | Negotiation and approval of deal.<br>Receipt and checking of brokers confirmation note against loans diary.<br>Reconciliation of cash control account.<br>Bank reconciliation |
| Accounting Entry              | Processing the expenditure or income i.e.posting the entries into the accounting system.  |
| Authorisation/Payment of Deal | Entry onto system.<br>Approval and payment.<br>Approval of deals  |

### 5.3 Treasury Management Organisation Chart



### 5.4 Statement of the treasury management duties/responsibilities of each treasury post

#### 5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Deputy Chief Executive *(This post is also the S151 officer.)* This person will carry out the following duties: -

- a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) Submitting regular treasury management policy reports
- c) Submitting budgets and budget variations
- d) Receiving and reviewing management information reports
- e) Reviewing the performance of the treasury management function
- f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) Ensuring the adequacy of internal audit, and liaising with external audit
- h) Recommending the appointment of external service providers.
- i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Financial controller, the Principal Accountant or the Accountancy Assistant Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

- k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

#### **5.4.2. Financial Controller / Principal Accountant**

The responsibilities of this post will be: -

- a) Execution of transactions
- b) Adherence to agreed policies and practices on a day-to-day basis
- c) Maintaining relationships with counterparties and external service providers
- d) Supervising treasury management staff
- e) Monitoring performance on a day-to-day basis
- f) Submitting management information reports to the responsible officer
- g) Identifying and recommending opportunities for improved practices

#### **5.4.3. The Head of the Paid Service – the Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Deputy Chief Executive reports regularly to the full Council and Cabinet on treasury policy, activity and performance.

#### **5.4.4. The Monitoring Officer – Executive Director – Legal & Democratic Services**

The responsibilities of this post will be: -

- a) Ensuring compliance by the Deputy Chief Executive with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

- c) Giving advice to the Deputy Chief Executive when advice is sought.

#### **5.4.5. Internal Audit**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

#### **5.5 Absence Cover Arrangements**

The Head of Accounts is also the deputy S151 Officer.

#### **5.6 Dealing Limits**

The following posts are authorised to deal: -

- Head of Accounts
- Financial Controller
- Principal Accountant

The dealing limits are set out in TMP 1.1.1

#### **5.7 Direct Dealing Practices**

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

#### **5.8 Settlement Transmission Procedures**

For payments a transfer will be made through the CHAP's system to be completed by the appropriate bank deadlines in place that day.

#### **5.9 Documentation Requirements**

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

#### **5.10 Arrangements Concerning the Management of Third-Party Funds.**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the bank base rate for internal balances for the year.

## **TMP 6      Reporting Requirements and Management Information Arrangements**

### **6.1 Annual programme of reporting**

- a) Annual reporting requirements before the start of the year: -
  - a. review of the organisation's approved clauses, treasury management policy statement and practices
  - b. strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Mid-year review
- c) Annual review report after the end of the year

### **6.2 Annual Treasury Management Strategy Statement**

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
  - a) Prudential and Treasury Indicators
  - b) current Treasury portfolio position
  - c) borrowing requirement
  - d) prospects for interest rates
  - e) borrowing strategy
  - f) policy on borrowing in advance of need
  - g) debt rescheduling
  - h) investment strategy

- i) creditworthiness policy
  - j) policy on the use of external service providers
  - k) any extraordinary treasury issue
  - l) the MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.



### **6.3 The Annual Investment Strategy Statement**

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of 'high credit quality' to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both (if applicable)
- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

### **6.4 The Annual Minimum Revenue Provision Statement**

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

### **6.5 Policy on Prudential and Treasury Indicators**

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to Cabinet and then full Council.

## **6.6 Mid year review**

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

## **6.7 Annual Review Report on Treasury Management Activity**

An annual report will be presented to the Cabinet and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

## **6.8 Management Information Reports**

Management information reports will be prepared every month by the Principal Accountant and will be presented to the Financial Controller.

These reports will contain the following information: -

- a) a summary of transactions executed and their revenue effect; and
- b) the effect on loan charges/investment income; and
- c) any non compliance with Prudential limits or other treasury management limits.

## **6.9 Publication of Treasury Management Reports**

Reports presented to Council and Cabinet are available to view on the Council's website [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk).

## **TMP 7     Budgeting, Accounting and Audit Arrangements**

### **7.1 Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

### **7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators**

The Deputy Chief Executive will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Deputy Chief Executive will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

### **7.3 List of Information Requirements of External Auditors.**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

### **7.4 Monthly Budget Monitoring Report**

Monthly Budget Monitoring reports are produced for the Deputy Chief Executive, whilst a six monthly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

## **TMP 8 Cash and Cash Flow Management**

### **8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

### **8.2 Bank Statements Procedures**

The Council receives daily bank statements and a monthly download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Finance Department.

### **8.3 Payment Scheduling and Agreed Terms of Trade With Creditors**

Our policy is to pay creditors (including sub-contractors) as per the agreed terms of trading.

### **8.4 Arrangements for Monitoring Debtors / Creditors Levels**

The Administration Services Manager is responsible for monitoring the levels of debtors and creditors.

### **8.5 Procedures for Banking of Funds**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the collection office to deposit in the Council's bank accounts. Cash and cheques banked the previous day will be taken into account in the daily cash flow.

### **8.6 Practices Concerning Prepayments to Obtain Benefits**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

# **TMP 9 Money Laundering**

## **9.1 Proceeds of Crime Act 2002**

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

## **9.2 The Terrorism Act 2000**

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

## **9.3 The Money Laundering Regulations 2007**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

## **9.4 Local authorities**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's

anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is Head of Accounts.
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Executive Director – Legal & Democratic Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

## **9.5 Procedures for Establishing Identity / Authenticity Of Lenders**

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on [www.fca.gov.uk](http://www.fca.gov.uk).

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

## **9.6 Methodologies for Identifying Deposit Takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on [www.fca.gov.uk](http://www.fca.gov.uk).

All transactions will normally be carried out by CHAP's for making deposits or repaying loans.



## **TMP 10 Training and Qualifications**

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Deputy Chief Executive to ensure that all staff under his authority receives the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

### **10.1 Details of Approved Training Courses**

Treasury management staff and members attend courses provided by our treasury management consultants, CIPFA, money brokers etc.

### **10.2 Records of Training Received by Treasury Staff**

The relevant line manager will update the relevant officers Personal Development Review with details of training received. This will be passed the Human Resources Department who will maintain records on all staff and the training they receive.

### **10.3 Record of Secondment of Senior Management**

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

### **10.4 Statement of Professional Practice (SOPP)**

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

### **10.6 Member training records**

Records will be kept of all training in treasury management provided to members.

### **10.7 Members charged with governance**

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

## **MP 11 Use of External Service Providers**

### **11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers**

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

#### **11.1.1 Banking Services**

- a) Name of supplier of service is the National Westminster Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is:  
  
PO Box No.2  
St James Street  
Accrington  
Lancashire  
BB5 1NB  
Tel :- 0845 366 0613
- d) Contract commenced 13/6/1975 and is reviewed annually.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments monthly and quarterly

#### **11.1.2 Money-Broking Services**

The Council may use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers.

- Name of supplier of service:
- a) RP Martin Brokers (UK) Ltd
- 20<sup>th</sup> Floor  
1 Churchill Place  
Canary Wharf  
London  
E14 5RD  
Tel: 0207 894 8698  
Regulatory Status: FCA registered counterparty 187916
- b) Tullet Prebon Europe Ltd
- 155 Bishopsgate  
2<sup>nd</sup> Floor  
London  
EC2M 3TQ  
Tel: 020 7200 7042  
Regulatory Status: FCA Authorised 146880

When undertaking temporary borrowing. The brokers currently charge commission at 0.1% of the amount borrowed for the duration of the loan. There is no commission charge for undertaking investment transactions.

### **11.1.3 Consultants'/Advisers' Services**

#### **Treasury Consultancy Services**

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the Deputy Chief Executive annually to check whether performance has met expectations.

- a) Name of supplier of service is Capita Asset Services Limited. Their address is 40 Dukes Place, London, EC3A 7NH Tel: 0871 664 6800
- b) Regulatory status: Investment Adviser authorised by the FCA
- c) Contract commenced 2003 and is re-negotiated annually.
- d) Cost of service is currently £9,100 per year.
- e) Payments due annually

#### **Leasing Consultancy Services**

- a) The name of the supplier is Chrystal Consulting Ltd.

- b) Their address is 500 Styal Road, Manchester, M22 5HQ.
- c) Tel: 0161 493 9770
- d) Fee is agreed at 0.5% of the capital cost of drawdown and at 25% of any savings negotiated on secondary lease rentals.

Other Consultancy services may be employed on short term contracts as and when required.

#### **11.1.4 Credit Rating Agency**

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

#### **11.2 Procedures & Frequency for Tendering Services**

The procedure for awarding contracts will be as per the Councils contract procedure rules.

# **TMP 12 Corporate Governance**

## **12.1 List of Documents to be Made Available for Public Inspection**

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Statement of Accounts
- Annual revenue budget and capital programme
- 3 Year Capital Plan
- Medium Term Financial Plan
- Minutes of Council / Cabinet / committee meetings