

## **NORTH LINCOLNSHIRE COUNCIL**

### **CABINET**

## **TREASURY MANAGEMENT PRACTICES**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 At its meeting In February 2010 council adopted the revised CIPFA Code of Practice for Treasury Management.
- 1.2 This paper seeks approval for changes to the treasury management practices (TMPs) which underpin the day to day arrangements for the treasury management function and which are a requirement of the Code

### **2. BACKGROUND INFORMATION**

- 2.1 The treasury code of practice applies to public bodies from 1 April 2010. It is published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Local Government Finance Act 2003 requires authorities to have regard to it. Its purpose is to regulate how the council manages its cash while undertaking its public responsibilities. That includes the investment of cash balances, borrowing for investment in assets and managing its debt. The council adopted the previous version of the code in 2002.It approved the new code at the special meeting of council on 24 February 2010.
- 2.2 To supplement the code the council is expected to codify its treasury management practices (TMPs). These are intended to provide a clear framework for the implementation of the approved treasury strategy and to set appropriate controls for the day to day management of treasury business.
- 2.3 The TMPs cover the following areas:
  - TMP1 Risk management
  - TMP2 Performance measurement
  - TMP3 Decision-making and analysis
  - TMP4 Approved instruments, methods and techniques
  - TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cashflow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

2.4 The current TMPs need to be updated for the latest guidance.

### 3. **OPTIONS FOR CONSIDERATION**

3.1 The TMPs are attached as an annex to the report and have been adapted to the particular circumstances of this council as recommended by the code. The TMPs are supported by a number of detailed schedules which specify how the treasury function will be managed on a day to day basis within the council.

### 4. **ANALYSIS OF OPTIONS**

4.1 The only appropriate option is to adopt the amended TMPs. Assurance is of course required that they effectively capture the requirements of the code, including arrangements to monitor their implementation.

4.2 The new TMPs have been extended or strengthened in a number of ways and these are highlighted in the following paragraphs. Many of the changes were implemented in the council's day to day practices before the code was published.

4.3 TMP1 Risk. Counterparty risk was reduced last year by limiting investments to UK institutions and setting a £5m limit for all except our own bankers and the government.

4.4 TMP4 Approved Instruments. The current focus is on UK financial institutions and government bodies for borrowing and investment.

4.5 TMP6 reporting requirements. Regular reports to cabinet and audit committee are now established and formalised in financial regulations. An additional mid-year report to council will be implemented in 2010/11.

4.6 TMP10 training. Training of members of the audit committee was provided in September 2009. Further training for all members will be offered as part of the member training programme in 2010/11.

**5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1 To date the changes have been implemented within existing resources. This primarily involves the treasury team in the Finance Service.

5.2 The appropriate level of resource will vary with the council's appetite for risk, expressed in its treasury strategy which is reviewed at least annually.

**6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 Management of the treasury function is a strategic risk for the authority, as a loss on investments or poor value for money can affect both financial resilience and reputation. The adoption and implementation of the code and TMPs are the key steps to mitigate that risk.

**7. OUTCOMES OF CONSULTATION**

7.1 None at this stage.

7.2 The Audit Committee has responsibility to scrutinise the council's treasury arrangements. It will seek assurance that the code and TMPs are implemented effectively.

**8. RECOMMENDATIONS**

8.1 That the Treasury Management practices and supporting schedules be approved.

SERVICE DIRECTOR FINANCE

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**Background Papers used in the preparation of this report**

Treasury Management and Strategy Report, council 24 February 2010  
CIPFA Code of Practice in the Public Service Fully revised second edition  
2009

# TREASURY MANAGEMENT PRACTICES

## TMP1 Risk management

### General statement

The Service Director Finance is responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. S/he will report at least annually on their adequacy/suitability, and will report, as a matter of urgency, circumstances of any actual or likely difficulty in achieving the Council's objectives. S/he will follow the procedures set out in TMP6 *Reporting requirements and management information arrangements*. For each of the risks identified in the following paragraphs the compliance arrangements are set out in schedule 1 to this document.

### [1] Credit and counterparty risk management

The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* and listed in schedule 4 to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements, such as leasing.

### [2] Liquidity risk management

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

### [3] Interest rate risk management

The council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, to meet the budget set in its revenue estimates 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 subject to the consideration and, if required, approval of any policy or budgetary implications.

#### **[4] Exchange rate risk management**

The council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income / expenditure levels. It does this by ensuring all borrowing and investment transactions are made in pounds sterling.

#### **[5] Refinancing risk management**

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

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

#### **[6] Legal and regulatory risk management**

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 TMP 1 [5] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

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

#### **[7] Fraud, error and corruption, and contingency management**

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

#### **[8] Market risk management**

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.

## **TMP2 Performance measurement**

The council is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function is the subject of ongoing analysis of the value it adds in support of the Council's service objectives. It is the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in schedule 2 to this document.

## **TMP3 Decision-making and analysis**

The council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in schedule 3 to this document.

## **TMP4 Approved instruments, methods and techniques**

The council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in schedule 4 to this document, and within the limits and parameters defined in TMP 1 *Risk management*.

## **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Service director finance will ensure that the reasons are properly reported in accordance with TMP6

*Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Service director finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in schedule 5 to this document.

The Service director finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in schedule 5 to this document.

The delegations to the Service director finance in respect of treasury management are set out in schedule 5 to this document. The Service director finance will fulfil all such responsibilities in accordance with North Lincolnshire Council's policy statement and TMPs and, as a CIPFA member, the *Standard of Professional Practice on Treasury management*.

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

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

As a minimum, the Council will receive:

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

The Council will receive regular monitoring reports on treasury management activities and risks.

The Council's Audit Committee, will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in schedule 6 to this document.

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

The Service director finance will prepare, and The council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP 1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Service director finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

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

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

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation are under the control of the Service director finance, and are aggregated for cash flow and investment management purposes. Cash flow projections are prepared on a regular and timely basis, and the Service director finance will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 [2] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in schedule 8 to this document.

## **TMP9 Money laundering**

The council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in schedule 9 to this document.

## **TMP10 Training and qualifications**

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

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements are detailed in schedule 10 to this document.

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

The council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review. In addition, it will ensure where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

### **TMP12 Corporate governance**

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

The council has adopted and has implemented the key principles of the code. This, together with the other arrangements detailed in schedule 12 to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the service director finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **SCHEDULE 1**

### **RISK MANAGEMENT**

#### **CREDIT AND COUNTERPARTY RISK**

Categories of organisation with whom monies can be placed are detailed in an appendix to the Treasury management Strategy approved at council in February each year. The investment limits are set in that report. The counterparty list is subject to continuing review by the Service director finance, to take account of international, national and local circumstances. It reflects intelligence from the financial press, brokers, published credit rating information and various other sources. On a day to day basis the service director finance may determine that investments should be made on a narrower basis, within the limits set by the strategy. Any amendments to the investment limits, or additions to the counterparty list, require a report to full council.

To establish the suitability for investment of council funds with any potential counterparty, the current credit rating, determined by the three pre-eminent credit agencies, are considered. The lowest rating is taken as the appropriate measure. The agencies are Standard & Poor's, Fitch, and Moody's. These are supplemented by other relevant criteria used to make an informed analysis as outlined in the Treasury management and Strategy Report.

#### **LIQUIDITY RISK**

Generally, the council operates on a cash surplus basis. The aim is to minimise daily balances in the authority's general bank account. The target is to be within +/- £20k on 9 out of 10 days. Apart from imprest accounts all other cash is invested in a range of instruments with a range of maturities which match the council's cash flow requirements. The maximum term for investment is set in the treasury strategy each year.

The council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. In this way it is able to meet all its future obligations.

#### *Bank Overdraft Arrangements*

An overdraft is an agreement, usually with the local authority's principal banker, that the bank will provide funds without further negotiation at a previously agreed rate and up to a previously agreed limit. The Council would normally utilise it for the purpose of balancing the daily incoming and outgoing payments. Whether the overdraft facility is used in preference to other external borrowing will depend on relative costs. North Lincolnshire only occasionally makes use of this facility on an infrequent basis.

The current overdraft arrangement with the council's bankers, National Westminster Bank plc, is for a £2,000,000 daily limit. The bank overdraft fee is

the bank's published rate per day + 1% (effectively base rate + 1%). The limit is kept under review.

#### *Short Term borrowing facilities from Authorised Banks*

The council has access, via broking firms, to the wholesale money markets in London. Borrowing limits approved by council include the level of temporary borrowing expected during the year.

The council has contingency arrangements in place such that the authorised limit for external borrowing is set at a level which allows for 4 months of non-collection of Council Tax and Non-domestic rates over an above the operational borrowing limit. It only makes use of the short term borrowing facility on an infrequent basis.

#### *Loans from the Public Works Loan Board*

The Public Works Loan Board is a central government agency whose purpose is to provide loans to local authorities. Funds lent by the board are intended to help local authorities meet their longer term borrowing requirements. It is intended to be used to finance capital payments already made or shortly due to be made. Whilst the monies may also be used to replace maturing debt, temporary debt and revenue balances, they should not be used with the explicit intention of on-lending or of financial investment.

#### *Insurance: Fidelity Guarantee Policy*

The council arranges cover through its insurers. This covers for system errors which may cause a loss when processing investments due to failing to deal correctly with a true calendar date.

### **INTEREST RATE RISK**

The council constantly monitors its exposure to interest rate changes for investment and borrowing. This includes any variable rate instruments it already holds as well as a cost/ benefit assessment of investments or loans it may arrange.

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

Specific trigger points in interest rates are used to prompt potential borrowing decisions as detailed in the treasury management strategy. Any decision to borrow is then made after considering:

- Forecast average future interest rates
- The need to borrow
- Intelligence about market or regulatory changes which may affect the cost or availability of loans

For example: Borrowing short term and/or variable when rates are "high", long term and fixed when rates are "low".

Taking maturity loans when rates are relatively low, to lock in the principal for the maximum period; taking annuity loans and equal instalments of principal loans when rates are considered higher

The minimum and maximum proportions of variable rate and fixed rate debt are determined in the treasury management strategy each year.

### **EXCHANGE RATE RISK**

As all borrowing and investment transactions are conducted in Pounds Sterling there is no exposure to exchange rate risk.

### **REFINANCING RISK**

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

#### *Borrowing*

The major objectives when borrowing are:

- To delay borrowing and temporarily use cash balances while money markets are unstable
- To aim to borrow only to support the capital programme
- Retaining the option to borrow for cash flow purposes should this be necessary
- To borrow for capital investment purposes at a time which is most advantageous on cost. The Council will not normally borrow more than or in advance of its needs. Any decision to borrow in advance is considered carefully to ensure value for money and that the Council can ensure security of such funds
- To maximize borrowing at fixed rates through the PWLB while this remains the best option
- While retaining the option to borrow for shorter periods and at variable rates
- To consider debt rescheduling if circumstances are appropriate
- To minimise the revenue cost of debt
- To manage the debt maturity profile

Borrowing is only undertaken on the basis of need. Any decisions must take account of the Council's existing debt maturity profile and must not create a potential funding problem in the future.

The long term borrowing market rates are monitored to decide whether to take advantage of the P.W.L.B, which is used as lender of first choice.

The Council ensures that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the money 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 Council as can reasonably be achieved in the light of market

conditions prevailing at the time. The Council actively manages 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.

The projected capital investment requirements are detailed in the treasury management strategy.

The council sets a benchmark for the revenue cost of borrowing expressed as a percentage of the net revenue stream in the capital programme report approved at the meeting of full Council in February each year. This is a trigger for evaluating the choice between resourcing long-term investment or the day to day running cost of services, not an actual cap.

The definition of 'net revenue stream' is 'the amount to be met from government grants and local taxpayers'. This is deemed to include council tax, formula grant, area based grant and dedicated schools grant.

### **LEGAL & REGULATORY RISK**

Relevant statutes and regulations are followed when administering treasury management policies and practices:

- Local Government Finance Act 2003
- CIPFA Code of Practice in the Public Service Second Edition 2009
- CIPFA The Prudential Code Fully Revised Second Edition 2009
- DCLG guidance (Revised 2010).

To evidence the authority to act of council officers to future counterparties, it is normal for a Standard Settlement Instruction to be completed which is usually provided by the counterparty involved. This involves authorising officers providing specimen signatures and information relating to our payment and income accounts.

### **RISK OF FRAUD, ERROR AND CORRUPTION & CONTINGENCY MANAGEMENT**

Systems are in place to minimise the risk of fraud, error and corruption, and there are contingency plans to deal with emergency situations:

- See Schedule 5, regarding roles and responsibilities within the Treasury management function, dealing practices and settlement transmission procedures.
- See Zurich Municipal Fidelity Guarantee Insurance Schedule.
- See the Finance Emergency and Business Continuity Plan.

### **RISK TO MARKET VALUE OF INVESTMENTS**

The council has no exposure to investments where capital values may fluctuate, as financial instruments where this may be the case, such as gilts, credit default swaps and money market funds are not currently utilised within our policy and practices (see schedule 4).

In the light of the banking crisis of 2008, and the collapse of the Icelandic banking system in particular, it has strengthened its arrangements for the management of cash deposits. In particular it has introduced country and group limits for investment, and has reduced the maximum level of investment which can be made.

## **SCHEDULE 2**

### **PERFORMANCE MEASUREMENT**

The council is a member of the CIPFA Treasury management and Debt Management Benchmarking Clubs. It makes quarterly returns. In this way comparisons are made with all other member authorities who provide data. Use is also made of the comparative statistics which CIPFA compiles and this also aids analysis of our performance.

It is also a member of the CIPFA treasury network which promotes the exchange of best practice.

The council endeavours to obtain value for money in all aspects of its treasury management function. This includes looking at alternative options for delivering the service and a regular review of contracted arrangements:

- The Banking Contract is put out to tender on a 3 to 5 year cycle following the Councils contract procedure rules and financial regulations. In this way it can determine on a regular basis that it receives good value for money for banking services.
- The council also retains leasing advisors to evaluate the relative value for money of leasing and borrowing for vehicle and equipment acquisition
- Where possible it undertakes joint procurement. Procurement of the 2007 banking contract was made jointly with North East Lincolnshire Council. It also has the opportunity to share expertise with the three other authorities in the Humber sub-region and through regular timetabled meetings of its chief finance officers explores the options for joint working in treasury and other financial services.
- The council does not currently buy in any money-broking services although there is daily contact with 3 firms of London money-brokers who provide market information and offer interest rates from potential borrowers. Using a number of brokers, or dealing direct when possible, widens the range of potential counterparties, ensuring greater value for money. Tradition (UK) Limited reviews the Council's debt portfolio. Sterling International Brokers Ltd reviewed the Council's lending list in 2009 and also gives advice on borrowing, lending interest rate forecasts etc.
- The council does not currently make use of any fund management services, or any paid consultants or advisers. It reviews the cost of in-house delivery compared to a fund management approach to test value for money.

## **SCHEDULE 3**

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

#### **INVESTMENT OF CASH BALANCES**

The Treasury management team use the web based NatWest Bankline system to process online transactions. The council's main accounting system, eFinancials, is used to reconcile income and payment transactions.

A daily report is obtained from the web based NatWest Bankline system detailing the three council account balances - payments, income and general. All transactions from the payment and income accounts are transferred each evening into the general account. This report is used in conjunction with the daily cashier listings, Payments and Payroll listings. These reports are used to compile a daily cash balance figure, detailed on the Pooled Balances sheet. Information from other sections is received on an ad hoc basis. Any large amounts received during the morning are promptly notified by the bank. A performance measurement of +/- £20k on the bank balance is expected however the team aim is to keep within +/- £5k. This performance is also reported weekly. The effect of same day clearance by the bank is beyond the control of the council and occurrences are infrequent and values small.

A detailed register of investments is maintained, including value, date, interest rate and repayment terms. The registers are regularly updated and reconciled to eFinancials. All loans and investments have their own individual file with broker/borrower confirmations and a front sheet of investment details.

A schedule is received from the investment organisation as acknowledgement of the loan. This is received for all of the non-call account transactions.

Where there is daily movement, statements are received instead of confirmations, outlining the transaction which could be undertaken daily. When there are rate changes the bank notifies the council.

The capital and treasury accountancy assistant produces a weekly report detailing investments for the previous week. The report is passed to the service director finance and Corporate finance manager. The report is compiled using the daily cash/investments dealing log for the week; details of all outstanding short-term loans; and the cash balances received from the web based NatWest Bankline system.

Any major issues within the money markets, general economy or specifically within the Councils Treasury management function are dealt with as required or via regular review meetings which are normally held on a weekly basis with the corporate finance manager. They are referred to the Service Director Finance for information and any decisions to be made, as required.

## **BORROWING DECISIONS**

The capital and treasury accountant monitors interest rates from the PWLB on a daily basis and plots the trend. These are reviewed as appropriate at the scheduled weekly treasury review meeting with the corporate finance manager.

When a trigger point is reached (i.e. when 25 year fixed PWLB interest rates rise through a designated point) a discussion is held with the corporate finance manager and with the service director finance if necessary to consider action. There is more than one trigger point to allow for early warning.

The timing and amount of borrowing is determined formally by the service director finance under the powers delegated to him, and within the limits set in the capital programme report and the treasury management strategy approved by council in February each year. It includes supported borrowing for which there is formal authorisation from government; combined with prudential borrowing which is deemed to be affordable against a benchmark projection of the future revenue stream.

The decision takes into account value for money considerations, the likely future trend of short and long-term borrowing rates based on market intelligence, its affordability in the current revenue budget, and comparable market rates where appropriate. If necessary the council will seek broker advice.

The council also considers the opportunities to restructure existing debt from time to time. This will only be pursued where there are clear, value for money benefits to the council.

## **SCHEDULE 4**

### **APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

#### **Borrowing**

Whenever it is considered necessary to raise finance, (i.e. to cover short-term cash flow positions and/or to raise capital finance) only money market loans, bank overdraft and/or loans from the Public Works Loan Board are used. There is no statutory restriction on the sources of local authority borrowing other than the requirement that the loan must be denominated in sterling.

While the council administers local authority bonds issued by predecessor authorities it does not currently intend to raise funding through the issue new bonds of its own.

The main sources of funding are: -

#### **Long Term (> 1year)**

Public Works Loan Board  
European Investment Bank  
Money Markets, including banks & building societies  
Leasing

#### **Short Term (<one year)**

Money Markets (including banks, building societies & local authorities)  
Bank Overdraft

The council does not currently use the private finance initiative as a mechanism to deliver capital investment. This is reviewed on a case by case basis should suitable opportunities arise.

#### **Investment**

The authority will only invest surplus funds in accordance with the current Approved Investment Regulations and its current treasury strategy. These include:

- Institutions authorised under the Banking Act 1987 by the Bank of England
- Building Societies
- Other Local Authorities
- National Banks
- Debt Management Account

There is also the facility to invest foreign banks and money market funds and for periods longer than one year when conditions in the money markets are appropriate and subject to formal council approval.

The Authority will not engage in any borrowing or lending activities other than those set out in this formal statement.

## **SCHEDULE 5**

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

The treasury management function has been organised to ensure a clear separation of roles and responsibilities.

The council receives reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

The council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to *Service director finance* who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury management*.

The council nominates *the Audit Committee* to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

By employing the following responsibilities for each role within the service, there is a clearly defined segregation of duties, and proper chain of command for the implementation of policies and also approval of individual transactions.

### **RESPONSIBILITIES**

#### **Service director finance (Section 151 Officer)**

*(Extract from Part D Rule 6.08 of the Constitution)*

*The Service Director Finance shall be responsible for all decisions on borrowing, investment or financing and be required to act in accordance with CIPFA's "Code of Practice for Treasury Management".*

*The Service Director Finance shall be responsible for setting out the council's strategy, policies, objectives and risk management arrangements in a "Treasury Policy Statement" (TPS), and for the arrangements for the purchase, security and sale of investments in accordance with the council's policy.*

*The Service Director Finance shall also be responsible for setting out Treasury Management Practices (TMP) the council will adopt. These practices will set out how the council will manage and control its Treasury Management activities.*

*The contents of the Treasury Policy Statement and Treasury Management Practices will follow the recommendations set out in sections 6 and 7 of the CIPFA Treasury Code.*

*The Service Director Finance shall report to the council each financial year on the treasury management policies, practices and activities. The reports will comprise an annual strategy and plan in advance of the financial year, a mid-year review and an annual report after its close and any further interim reports he/she deems necessary.*

*The Service Director Finance shall be responsible for the implementation and regular monitoring of treasury management policies and practices as set out in the council's TPS and TMPs and reporting on such to Cabinet.*

*The Service Director Finance shall also report to the Audit Committee quarterly sufficient information to enable it to undertake effective scrutiny of the treasury management strategy and policies.*

*All money in the hands of the council shall be aggregated for the purposes of treasury management under the control of the Service Director Finance, who will carry out day to day investment and borrowing activity in accordance with approved policies.*

#### **Corporate finance manager**

Provides absence cover for the service director finance on policy issues (see also financial services manager)

Manages the overall treasury function

Prepares and reviews the treasury management strategy

Ensures that treasury management practices are documented and are regularly reviewed

Produces a borrowing plan before the beginning of each financial year

Decides day to day funding and investment policies within the strategy

Receives reports from the capital and treasury accountant/assistant on a weekly basis on: transactions, cash flow, debt, investments' portfolio, and key performance indicators

Ensures the organisation of the treasury management function is adequate to meet current requirements.

#### **Capital & treasury accountant**

Provides absence cover for the corporate finance manager for policy; and for the accountancy assistant capital & treasury for day to day items

Oversees the implementation of the treasury management practices

Ensures that the systems and procedures laid down in the treasury management practices are complied with, and the prescribed limits are not breached

Ensures the appropriate division of duties in the section

Ensures the credit worthiness of counterparties and maintains the lending list

Provides day to day advice on investment and borrowing activity

Assists with the assessment and appointment of brokers, leasing advisors and the organisation of the periodic banking tender

Prepares reports to council, cabinet and audit committee under the oversight of the corporate finance manager on the treasury strategy

**Accountancy Assistant, Capital & Treasury**

Provides absence cover for the capital & treasury accountant as agreed with corporate finance manager

Conducts dealing on a daily basis and maintains the appropriate records of deals

Responsible for transmission procedures

Assists the capital & treasury accountant in carrying out day to day duties.

*Further cover and input into the Treasury management function is provided as follows:*

**Corporate Accountant**

Provides absence cover for corporate finance manager and capital & treasury accountant as agreed with corporate finance manager

**Senior Accountant, Technical**

Provides absence cover for capital & treasury accountant as agreed with corporate finance manager

Conducts dealing on a daily basis and maintains the appropriate records of deals

Responsible for transmission procedures

Assists the capital & treasury accountant in carrying out day to day duties

**Other staff in corporate finance are trained in the use of bankline to authorise an investment. This requires three separate authorisations to complete.**

**Financial Services Manager**

Provides absence cover for the service director finance

Administrator of BankLine

**Internal Audit**

Reviews and make recommendations in respect of compliance with approved policy and procedures

Reviews and make recommendations in respect of duties and operational practice

Assesses the value for money of treasury activities

Undertakes the probity audit of the treasury function

**Monitoring Officer- Head of Legal and Democratic Service**

Ensures compliance by the service director finance with the legislative and regulatory requirements for treasury management

Satisfies himself that any proposal to vary treasury practice complies with the law or any code of practice

Advises the service director finance where his advice is sought.

## **DEALING ARRANGEMENTS**

Dealing limits are not determined by any kind of authorisation level for individual members of staff, but rather by the levels of investment allowed in accordance with the counterparty list.

A listing of the brokers through which the council currently conducts business is shown in Schedule 11. Direct dealing with individual financial institutions is also permitted.

Use of a range of brokers increases the range of investment opportunities and diversification between brokers when making deals ensures the best possible investment is obtained.

Direct dealing practices, excluding broker involvement, usually comes into play when making transactions in one of the call accounts the council holds. Normally, transactions are conducted by phone (Santander UK, Bank of Scotland, Barclays), but the HSBC require confirmation of any transaction by fax.

To process an investment, the member of staff performing the transaction completes an internal voucher for each transfer, signing where relevant.

The corporate finance manager approves the transactions, but is not involved with CHAPS (i.e. authorises the spend, not the voucher). The voucher is then given first authorisation and second authorisation by two further officers. The forms then go through the systems team. Upon realisation of the investment, the accountancy assistant systems checks to the bank statement that the payment has been made.

When making a settlement transmission, a CHAPS payments is processed automatically through the web based NatWest Bankline system. The member of staff performing the transaction enters the CHAPS transfer details, another nominated officer gives first authorisation of the CHAPS transfer and then the transfer is given second authorisation by an officer other than either of those who entered the payment or provided the first authorisation. Three persons are always involved in this process, except in case of emergency or absence, where the Systems Administrator changes the authorisation to two persons. The Capital and Treasury Accountancy Assistant, Capital & treasury accountant and Senior Accountant Technical can enter the details on to the system; the Capital & treasury accountant is allowed to give first authorisation on the system. Other staff are set up as first and second authorisation as and when required.

## **SCHEDULE 6**

### **REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION REQUIREMENTS**

The necessary reporting including of management information is undertaken as follows:

#### **Council**

- Agrees the treasury management strategy and variations to it
- Receives a mid-year review report
- Receives an annual report on treasury management activity for the preceding financial year as soon as possible after the end of the financial year, but no later than the end of July
- Agrees the funding for treasury activity as part of the annual budget.

#### **Cabinet**

- Receives periodic reports on treasury arrangements and performance as part of budget monitoring.

#### **Audit Committee**

- Receives quarterly reports on treasury arrangements and performance for scrutiny

#### **Corporate finance manager**

- Receives weekly reports on treasury management activity and conducts treasury review meetings which are scheduled weekly
- Receives regular updates on economic factors which may influence investment and borrowing decisions

#### **Service director finance**

- Receives weekly reports on treasury management activity
- Receives regular updates on economic factors which may influence investment and borrowing decisions

## **SCHEDULE 7**

### **BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

#### **Budgeting**

To comply with statutory requirement, limits must be approved before the beginning of the financial year to which they relate. Since they concern the budget, it is considered appropriate that they are considered at the same time, at the budget setting meeting of the Council.

The treasury management strategy is prepared following regulatory and best practice guidance from: the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury management; the Prudential Code; the Local Government Finance Act 2003; and guidance from the CLG on Local Government Investments.

In preparing the council budget the service director finance takes into account:  
cash flow requirements  
Capital investment requirements  
the revenue effect of borrowing and investment transactions  
and identifies these as part of the published budget.

#### **Accounting**

Capital financing costs, including investment income, debt repayments and interest paid or received, is accounted for as a separate 'service' in the council's accounting structure.

For BVACOP purposes the costs of treasury management and debt management expenses are treated as a charge to corporate management.

#### **Audit Arrangements**

Internal Audit test treasury arrangements on an annual basis as one of the council's fundamental financial systems. This includes a responsibility to

- Review compliance with approved policy and procedures.
- Review division of duties and operational practice.
- Assess the value for money from treasury activities.
- Undertake probity audit of the treasury function.

External Audit conduct their own audit of the system as part of the closure of accounts audit.

In the normal course of the audit the auditor will have access to all papers supporting and reporting on the operation of the treasury function and will require evidence as to whether the code of practice for treasury management and the treasury management policies have been adhered to.

## **SCHEDULE 8**

### **CASH AND CASH FLOW MANAGEMENT**

#### **Cash Flow Management**

This is achieved by endeavouring to identify all future major payments and receipts that can be anticipated to ensure sufficient funds are always available to meet obligations.

##### Payment scheduling

- Ensure that payment scheduling takes account of cash flow and agreed terms of trade.
- Receive advance notice (normally two working days) of future payments to be paid via BACS (twice weekly payment run), and of payments to be made by the Treasury management function via CHAPS, including, but not exclusive to Parish Precepts, Drainage Board Levy, Flood Defence Levy, Humberside Police Authority Precept, Humberside Fire Authority Levy, East Riding Pension Enhancements, North Eastern Sea Fisheries Committee, Loan interest, Loan principal
- Responsible Officers: Payments Section and/or Service Finance Teams

##### Schedule of income receipts

- Expected sources and levels of income, including amounts, due dates and payment instructions etc.
- The sources of income will include, but not be exclusive to Grants, Council Tax, NNDR etc.
- Responsible Officer: Corporate Finance and/or Service Finance Teams

##### Debtors and Creditors

- Monitor for cash flow purposes levels of debtors and creditors, identify any emerging trends and, where necessary, institute corrective action.
- Responsible Officer: Corporate Accountant: Treasury management; Payments; Sundry Debtors.

##### Timing of in-payments

- Ensure that payments to the bank are as frequent as is economical.

##### Use of direct debit/credit

- Maximise use of direct debits/credits and other bank transactions.

A cash flow budget is in place, and is maintained on a daily basis with all known future receipts and payments. This is then used for two distinct purposes:

- As a tool for the day to day operation of the Treasury management function to ensure that there are always sufficient funds available to meet future obligations, and to enable effective planning of future investments.
- As a snapshot of the year ahead to provide an overview of anticipated cashflow over that period. This is produced annually.

## **Procedures for Banking of Funds**

Details of the processes for banking funds are included in the council's finance manual.

## **Arrangements for monitoring debtor/creditor levels**

A monthly analysis is undertaken of debtor levels, incorporating amongst other things an age debtor analysis as part of balance sheet monitoring. This report goes to the service director finance and the corporate finance manager and is summarised in the monthly budget monitoring overview to service directors and cabinet members.

No analysis is made of creditor levels, but the number of payments made on time is tracked.

## **SCHEDULE 9**

### **MONEY LAUNDERING**

Money laundering has the objective of concealing the origin of money generated through criminal activity. Recent legislation has given a higher profile to the need to report suspicions of money laundering. The substantive criminal law (the Criminal Justice Act 1993, the Drug Trafficking Act 1994, etc) applies to all individuals. Elected members and officers are subject to the provisions of this law, as are all citizens.

As such, training has been jointly delivered by the councils internal auditors and Humberside Police to ensure staff are able to identify potential laundering activity, and to be aware of the appropriate action to take if suspicions are aroused. This is in accordance with the council's Money Laundering Policy.

If any officer of the Council has any suspicions of money laundering they are to be reported immediately to the Chief Auditor.

## **SCHEDULE 10**

### **TRAINING AND QUALIFICATIONS**

Treasury management demands appropriate skills. Foremost among them are a knowledge of money market operations, an awareness of available sources of funds, an understanding of the various financial instruments, an ability to assess risk exposure, a knowledge of investment opportunities, an understanding of the legal powers and the ability to take an overall view of the treasury requirements.

The specialist skills needed for treasury management activities require training appropriate to the various levels of the structure. Training is formalised by specific courses, on the job instruction and ad hoc courses as and when required.

The council subscribes to, and staff regularly attend, the CIPFA Treasury management network (formerly treasury management forum).

The CIPFA Treasury management Network is an independent and unique member subscription service, which provides a range of services to support treasury management practitioners in their day to day jobs.

The Network is dedicated to Local Authorities, offering services in relation to investment, debt management, capital financing, accounting and governance. It is established and operated for the promotion and sharing of good practice, discussion of topical issues and the commissioning of expert training and guidance.

As a member of the Network, support and advice are provided through:

- Member Networking Group – designed to help practitioners share thoughts and develop innovative approaches to treasury management
- Practical workshops – held regionally and throughout the UK
- Feedback documents – following each set of events and giving practical advice and support on issues raised
- Member-only TMN website – encompassing a list of practitioner contacts across the UK
- Extensive library of guidance – access to an extensive library of reports, briefings, practitioner documents and templates on treasury management issues

Training is also offered as part of the council's member training programme of and for the members of the council's Audit Committee.

## **SCHEDULE 11**

### **USE OF EXTERNAL SERVICE PROVIDERS**

Our bankers are the NatWest Bank PLC

The scope of services provided is in line with those that could be expected to provided within a Commercial Banking relationship, and are fully detailed in the contract document that was agreed in 2007.

The Council primarily uses three London money brokers:

- Tradition (UK) Ltd
- Sterling International Brokers Ltd
- Martin Brokers (UK) plc

All the brokers who the Council deal with are authorised and regulated by the Financial Services Authority.

No formal advice is given by them, or sought by any member of Council staff.

The brokers are used purely to determine current rates in the market and to broker suitable investments as appropriate.

The Council has also commissioned Sterling International Brokers Ltd on a one off basis to review the Councils investment policy.

Another form of external service provider currently under consideration is the possibility of a potential future joint working arrangement with other authorities in the sub-Humber region.

## **SCHEDULE 12**

### **CORPORATE GOVERNANCE**

The council has formally adopted the requirements of the CIPFA Code of Practice in the Public Service Fully Revised Second Edition 2009 and has followed the guidance in the Cross-Sectoral Guidance Notes and the templates for best practice to produce these revised TMPs.

It has incorporated into its financial regulations in Part D Rule 6 of its Constitution a clear statement of the role of the service director finance and the relationship to the responsibilities of the council:

- the responsibility of the council for the approval and oversight of the treasury strategy
- the delegation to cabinet of responsibility for regular monitoring of its treasury management policies and practices
- the nomination of the audit committee to be responsible for ensuring effective scrutiny
- the delegation of the execution and administration of treasury management decisions to the service director finance

TMP7 and Schedule 7 also make clear the arrangements for the effective internal audit of treasury arrangements.