

**Name and date of meeting:** Cabinet  
21 November 2017

**Title of report:** Half Yearly Monitoring report on Treasury  
Management activities 2017/18

### **Purpose of report**

The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report is the mid-year for 2017/18 covering the period 1 April to 30 September 2017.

<b>Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?</b>	<b>No</b>
<b>Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a></b>	<b>Key Decision: Yes</b> <b>Private Report/Private Appendix: N/A</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>No</b>
<b>Date signed off by Strategic Director and name</b>	<b>Jacqui Gedman – 9 November 2017</b>
<b>Date signed off by Service Director</b>	<b>Debbie Hogg – 8 November 2017</b>
<b>Is it also signed off by the Service Director Legal, Governance and Commissioning (Monitoring Officer)?</b>	<b>Julie Muscroft – 9 November 2017</b>
<b>Cabinet member <a href="#">portfolio</a></b>	<b>Corporate</b> <b>Graham Turner</b> <b>Musarrat Khan</b>

**Electoral wards affected:** N/A  
**Ward councillors consulted:** N/A  
**Public or Private:** Public

## **1 Summary**

- 1.1 The report gives assurance that the Council's treasury management function is being managed prudently and pro-actively. External investments averaged £41.3 million during the period at an average rate of 0.20%. Investments have ranged from a peak of £59.8m in August and a low of £23.2m in September.
- 1.2 Balances were invested in line with the approved treasury management strategy (see Appendix 1), in instant access accounts or short-term deposits.
- 1.3 The treasury management revenue budget is forecasted to marginally underspend by £100k in 2017/18 against an annual budget provision of £22.2m.
- 1.4 In-year treasury management performance is in line with the treasury management prudential indicators set for the year (see appendix 4).
- 1.5 A new regulatory update comes into force from 3 January 2018, which means that the Council is required to formally apply to renew its status as a 'professional client' for the purposes of continuing to invest with or borrow from regulated financial services firms, such as money market funds. This report recommends that the Council formally applies on this basis.
- 1.6 The Chartered Institute of Public Finance & Accountancy (CIPFA) is currently consulting with the sector on a number of proposed changes to the current Treasury Management and Prudential codes of practice, to be implemented from April 2018 onwards. This report summarises the key proposals and implications.
- 1.7 The report also includes a recommendation for the formal adoption of a pro-active cash flow management approach between the Council and its wholly owned arms-length management organisation, Kirklees Neighbourhood Housing), as an integral part of effective treasury management strategy of the respective organisations. (For further info please see paragraphs 2.37 to 2.41)

## **2 Information required to take a decision**

- 2.1 The treasury management strategy for 2017/18 was approved by Council on 15 February 2017. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims to invest externally balances of around £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements.

The investment strategy is designed to minimise risk, with investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds. Diversification amongst counterparties is key.

### Economic Context

- 2.2 The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.3 to 2.5 below in italics):
- 2.3 *Prime Minister Theresa May called an unscheduled General Election in June 2017, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.*
- 2.4 *In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.*
- 2.5 *Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year.*

#### Investment Performance

- 2.6 The Council invested an average balance of £41.3 million externally during the period (£44.8 million in the first six months of 2016/17), generating £42k in investment income over the period.
- 2.7 Balances were invested in instant access accounts or short term deposits. Appendix 1 shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.
- 2.8 The Council's average investment rate for the period was 0.20%. This is lower than the average for 2016/17 of 0.46%. This is due to the base rate cut to 0.25% from August 2016 and consequential impact on investment interest rates from this date onwards.

#### Borrowing Performance

- 2.9 Long-term loans at the end September totalled £397.4 million (£400.5 million 31 March 2017) and short-term loans £0.9 million (£37.7 million 31 March 2017). There has been no new external borrowing so far this year. The external borrowing requirement for the year is expected to be around £56m (see also, para 2.15, Table 2). Any borrowing undertaken is likely to be fairly short-term, mainly to take advantage of very low borrowing rates.

- 2.10 Fixed rate loans account for around 81.3% of total long-term debt giving the Council stability in its interest costs. The maturity profile for fixed rate long-term loans is shown in Appendix 2 and shows that no more than 10% of fixed rate debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.
- 2.11 The Council has occasionally borrowed small amounts from the Money Market for periods between one to seven weeks at an average rate of 0.23%.
- 2.12 Appendix 4 sets out in year repayments on long term borrowing and also further re-payments for the next 6 months.

#### Revenue Budget Monitoring

- 2.13 The treasury management budget for 2017/18 currently stands at £22.2m. The latest budget monitoring shows a marginal under-spend of £0.1 million; equivalent to just 0.4%. The under-spend is mainly due to a slightly revised Minimum Revenue Provision (MRP) calculation. The MRP calculation is used to determine the amount of revenue resources that need to be set aside annually by the Council to meet its debt obligations.

#### Prudential Indicators

- 2.14 The Council is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy.
- 2.15 The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. Appendix 4 provides a schedule of the indicators set for treasury management and the latest position.

#### Borrowing and Investment – General Strategy for 2017/18

- 2.16 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.
- 2.17 An authority can choose to finance its CFR through internal or external borrowing or a combination of the two.
- 2.18 Forecast changes in the Capital Financing Requirement (CFR) and how these will be financed are shown in the balance sheet analysis at Table 1 below:

#### Table 1: Balance Sheet Forecast

	<b>Actual</b>	<b>Strategy</b>	<b>Revised Forecast</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund CFR - Non PFI	412.8	437.9	414.3
PFI	55.5	52.3	52.3
HRA CFR - Non PFI	186.2	182.8	182.8
PFI	56.8	54.9	54.9
Total CFR	711.3	727.9	704.3
Less: PFI debt liabilities (1)	112.3	107.2	107.2
Borrowing CFR	599.0	620.7	597.1
<u>Financed via:</u>			
Deferred Liabilities (Non-PFI) (2)	4.1	4.0	4.0
Internal Borrowing	156.7	104.4	136.6
External Borrowing	438.2	512.3	456.5
Total	599.0	620.7	597.1
Investments	31.3	30.0	30.0

(1) £112.3m PFI Liability (£5.1m falling due in 2017/18)

(2) Deferred Liabilities = £1.0m Finance Lease (Civic Centre 1) & £3.1m Transferred Debt (Probation - Bradford, Waste Mgt - Wakefield & Magistrates Debt Charges)

2.19 The revised forecast takes into account the following factors;

- a) General Fund CFR has reduced from £437.9m to £414.3m due to further slippage in the Capital Plan throughout the last quarter of 2016/17 and also forecasted Capital Plan Expenditure in 2017/18 as reported in Quarter 2 monitoring.
- b) Internal borrowing was forecasted in the Strategy to be £104.4m, this has now been revised up to £136.6m due to lower than forecasted use of reserves.

2.20 The Council currently looks to maximise internal borrowing due to the relatively low rates of investment income available within the scope of the Treasury Management Strategy. However, because of the use of reserves in supporting the MTFP over recent years this has required the Council to convert internal borrowing to external.

#### Risk and Compliance issues

2.21 On occasions when the Council has received unexpected monies late in the day, officers have had no alternative but to put the monies into the Barclays Business Reserve Account overnight. This has led to a marginal breach of the investment limit on Barclays on each occasion. Notable occasions were a receipt of £1.03m for sale of land at Dewsbury to Kirklees College and also a £0.632m receipt from N Kirklees CCG late in the day. In addition 1 day in May and 1 in June, a Barclays' software problem prevented the Council from transmitting funds to other counterparty deposit accounts.

- 2.22 On the May occasion the Council had limited balances of under £0.25 million and in June the Council was actually within an overdraft position. The Council were not penalised for using the credit facility on this occasion.
- 2.23 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

#### Council 'Professional Client' Status

- 2.24 Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. But from 3<sup>rd</sup> January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments.
- 2.25 In order to opt up to professional client status, the authority must have an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.
- 2.26 In order to continue to have the widest opportunities to invest within the scope of the Council's current treasury management strategy, the officer recommendation is for the Council to “Opt up” to become a professional client , to maintain the current status the Council has to invest.

#### CIPFA Treasury Management Codes - Consultation

- 2.27 In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the existing Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August 2017.
- 2.28 The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators could be delegated to another committee.
- 2.29 There are plans to drop certain prudential indicators, but local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.
- 2.30 Current Council Treasury Management Strategy incorporates the twelve Treasury Management Practices (TMP) which form part of the existing CIPFA

Treasury Management Code, and these are included at Appendix 6 for reference.

- 2.31 These TMP's currently include pre-existing references to 'Director of Resources', and it recommended that these references be amended to 'Chief Finance Officer' (consistent with updated Financial Procedure Rules). For these purposes, Chief Finance Officer is the person so designated as the section 151 of the Local Government Act 1972 from time to time by the Chief Executive; currently the Service Director Finance, IT and Transactional Services.
- 2.32 It is anticipated that the existing twelve TMP's as set out at Appendix 6 will remain intact as a result of the consultation. Proposed additions to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties, to be included in the definition of "investments", as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management, which would need to be addressed within the Treasury Management Strategy.
- 2.33 The consultation further proposes that approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.
- 2.34 CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year.
- 2.35 The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.
- 2.36 The revised codes are expected to be published in Dec 2017, and will be formally incorporated into the Council's 2018/19 Treasury Management Strategy as appropriate, taking into account any transitional arrangements.

#### Council Treasury Management and other Organisations

- 2.37 Kirklees Neighbourhood Housing (KNH) is an arms length management organisation which provides landlord services on the Council's behalf, to about 23,000 tenants and leaseholders, as well as property services (repair and enhancements) to other Council stock. KNH is a separate but wholly owned Council company.
- 2.38 Following the merger of the Council's Building Services operation with Kirklees Neighbourhood Housing (KNH) from April 2017, there has been a significant increase in KNH annual turnover, from about £14m previously, to an estimated

£58m. On an operational level, KNH cashflow management is significantly shaped both by the timing of Fee payments from the Council, and the timing of charges to the Council for property work undertaken.

- 2.39 The current management agreement between the Council and KNH was signed on 16 October 2017, and includes provision for both parties to review the timing of Fee payments and charges in-year between the respective organisations, to support effective 'liquidity risk' cashflow management.
- 2.40 It is recommended that as part of a robust risk management strategy (as set out at TMP1 attached at Appendix 6), as a wholly owned subsidiary of Kirklees Council, KNH shall further have the ability to lend to or borrow from the Council to support their operational cashflow requirements, and at rates of interest no less onerous than those attached to the reference loan from which the funds are derived. These loans will be repayable on demand.
- 2.41 KNH are currently reviewing their current Treasury Management policy and are intending to present forthcoming proposals to their Audit Committee to adopt the CIPFA Treasury Management Code as part of their treasury management revision. This will include incorporation of the proposals as set out at para 2.40 above, subject to Council approval.
- 2.42 The Council is a part shareholder of Yorkshire Purchasing Organisation (YPO), and YPO's own Treasury Management Strategy is based around cash liquidity before financial returns and therefore minimising risk. Any cash may be invested within the same counterparties as the Council. The Council's pro-rata share of the YPO limit per counterparty is £150k.
- 2.43 Whilst the Council and YPO may be investing in the same counterparties, the Council's share of YPO counter-party limit is a maximum of 1.5% on top of the Council's own £10m counterparty limit, and is therefore not considered material enough for the Council to lower its own counterparty limit. This will be monitored moving forward to ensure that the Council's exposure to risk does not become material.

### **3 Implications for the Council**

- 3.1 The treasury management underspend has been incorporated into the overall Quarter 2 financial monitoring report to Cabinet on 21 November.
- 3.2 The outcome of the CIPFA Prudential and Treasury Management Code consultation will be incorporated as appropriate in the Council's forthcoming annual budget report which will incorporate the 2018/19 Council treasury management strategy.
- 3.3 Early Intervention and Prevention (EIP)  
N/A



- 3.4 Economic Resilience (ER)  
N/A
- 3.5 Improving Outcomes for Children  
N/A
- 3.6 Reducing Demand for Services  
N/A

#### **4 Consultees and their opinions**

This report was also considered at Corporate Governance and Audit Committee on 17 November 2017. Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report, and advice on the CIPFA Code consultation.

#### **5 Next steps**

Following consideration at Cabinet, this report will be presented to Full Council on 13 December 2017.

#### **6 Officer recommendations and reasons**

Having read this report and the accompanying Appendices, Cabinet are asked to:

- i) note the half-year treasury management performance in 2017-18 as set out in the report;
- ii) approve the Council “Opt up” application to professional client status as part of the Markets in Financial Instruments Directive in order for the Council to continue to be able to access the widest range of instruments in line with approved strategy, from January 2018;
- iii) approve the changes as set out in Appendix 6 regarding current Treasury Management Practices wording and the substitution of Director of Resources with Chief Finance Officer;
- iv) note the CIPFA consultation on the current treasury management and prudential codes and that any revisions will be incorporated as appropriate into the forthcoming Treasury Management strategy 2018/19; and
- v) approve the ‘liquidity risk’ management strategy and approach in relation to the Council and Kirklees Neighbourhood Council.

#### **7 Contact officer**

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Finance Manager

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## **8 Background Papers and History of Decisions**

CIPFA's Prudential Code for Capital Finance in Local Authorities.

CIPFA's Code of Practice on Treasury Management in the Public Services.

The treasury management strategy report for 2017/18 - Council 15 February 2017

CIPFA 2017 consultation - Prudential and Treasury Management Codes

## **9 Service Director responsible**

Debbie Hogg

01484 221000

Kirklees Council Investments 2017-18													
Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2017*	1 April 2017 (opening)			30 June 2017			30 September 2017		
					£m	Interest	Type of Invest ment	£m	Interest	Type of Invest ment	£m	Interest	Type of Investment
						Rate			Rate			Rate	
<u>Specified Investments</u>													
Bank of Scotland	Bank	10.0	F1	F1/A+	1.2	0.20%	Instant	5.8	0.20%	Instant		0.10%	Instant Access
Handelsbanken	Bank	10.0	F1	F1+/AA	0.0	0.20%	Instant	8.0	0.20%	Instant	8.0	0.20%	Instant Access
Leeds	BS	10.0	F1	F1/A-				3.0	0.22%	1			
Std Life (Ignis)	MMF**	10.0	AAA-A	AAA	8.7	0.29%	MMF	10.0	0.24%	MMF	10.0	0.20%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa	7.3	0.20%	MMF	10.0	0.17%	MMF	10.0	0.16%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	6.9	0.20%	MMF	2.9	0.15%	MMF		0.13%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	7.1	0.20%	MMF	2.9	0.15%	MMF	3.5	0.13%	MMF
					31.2			42.6			31.5		
<u>Sector analysis</u>													
Bank		10.0 each			1.2	4%		13.8	32%		8.0	25%	
Building Society		10.0 each						3.0	7%				
MMF**		40.0			30.0	96%		25.8	61%		23.5	75%	
Local Authorities/Cent Govt		Unlimited											
					31.2	100%		42.6	100%		31.5	100%	
<u>Country analysis</u>													
UK					1.2	4%		8.8	21%		0.0	0%	
Sweden						0%		8.0	19%		8.0	25%	
MMF**					30.0	96%		25.8	60%		23.5	75%	
					31.2	100%		42.6	100%		31.5	100%	

\*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

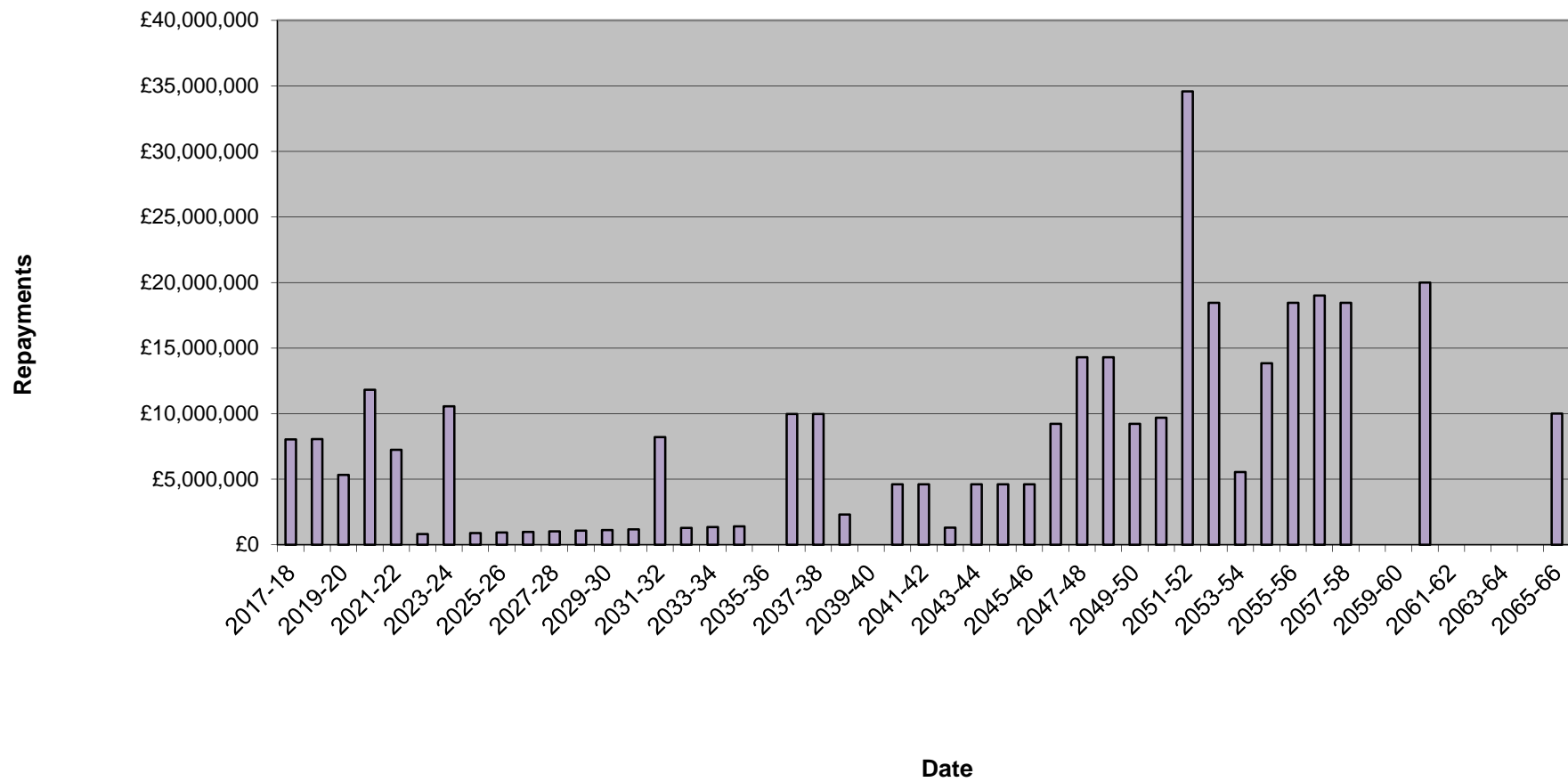
\*\*MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

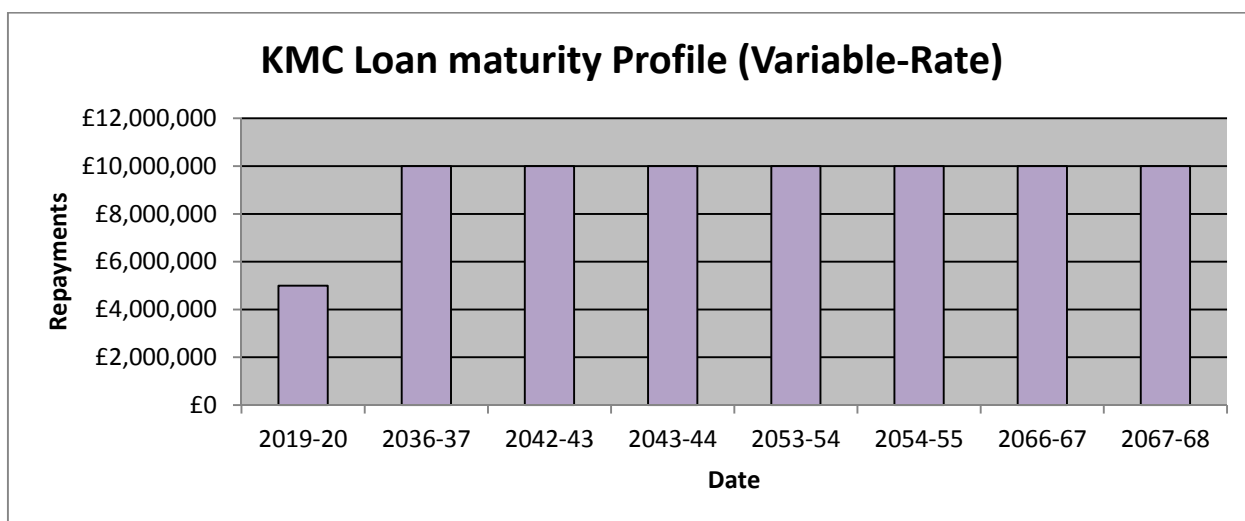
**Key – Fitch’s credit ratings:**

**Appendix 1 Continued**

		<b>Long</b>	<b>Short</b>
Investment Grade	Extremely Strong	AAA	F1+
	Very Strong	AA+	
		AA	
		AA-	
	Strong	A+	F1
		A	
		A-	F2
	Adequate	BBB+	
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	B
		BB	
		BB-	
	Very Speculative	B+	
		B	
		B-	
	Vulnerable	CCC+	C
		CCC	
		CCC-	
		CC	
		C	
	Defaulting	D	D

**KMC Loan Maturity Profile (Fixed-Rate)**





The above maturity repayments are based on principal amounts excl. any adjustment for fair values and therefore will not reconcile to table 2 in 2.15

## **Treasury Management Prudential Indicators**

### **Interest Rate Exposures**

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2017 - 18	Estimated Actual* 2017 - 18
Interest at fixed rates as a percentage of net interest payments	60% - 100%	81%
Interest at variable rates as a percentage of net interest payments	0% - 40%	19%

\*The estimated actual is within the limits set.

The table below further examines the Councils External Borrowing over 1 year

	Actual 2016/17 £m	Strategy 2017/18 £m	Revised Forecast 2017/18 £m	Estimated Forecast 2017/18 %
<b>External Borrowing over one year :</b>	<b>400.5</b>	<b>392.3</b>	<b>392.3</b>	<b>100%</b>
Fixed Rate	324.7	316.5	316.5	81%
Variable Rate (LOBO)	75.8	75.8	75.8	19%

### **Maturity Structure of Borrowing**

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2017 - 18	Est'd Actual 2017 - 18
Under 12 months	0% - 20%	4%
12 months to 2 years	0% - 20%	2%
2 years to 5 years	0% - 60%	6%
5 years to 10 years	0% - 80%	4%
More than 10 years	20% - 100%	84%

The limits on the proportion of fixed rate debt were adhered to.

### **Total principal sums invested for periods longer than 364 days**

The Council will not invest sums for periods longer than 364 days.

## **APPENDIX 5**

### **Long-term loans repaid during the period 01/04/17 to 30/09/17**

	<b>Amount £000s</b>	<b>Rate %</b>	<b>Date repaid</b>
PWLB (498358) - Maturity	2,768	4.24	21 Aug 17
PWLB (496956) - Annuity	322	4.58	29 Sept 17
<b>Total</b>	3,090		

### **Long-term loans to be repaid during the period 01/10/17 to 31/03/2018**

	<b>Amount £000s</b>	<b>Rate %</b>	<b>Date to be repaid</b>
PWLB (476734) – Maturity	4,613	8.38	06 Dec 17
PWLB (496956) - Annuity	330	4.58	29 Mar 17
<b>Total</b>	4,943		



## **TREASURY MANAGEMENT PRACTICES**

The following Treasury Management Practices (TMPs) set out the manner in which the Council aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

### **1. TMP 1 Risk management**

The ~~Director of Resources~~ Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

#### **(i) Credit and counterparty risk management**

The Council regards a prime 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 which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **(ii) Liquidity risk management**

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 which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

#### **(iii) Interest rate risk management**

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

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

(iv) 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.

(v) 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 over-reliance on any one source of funding if this might jeopardise achievement of the above.

(vi) 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 TMP1(i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council.

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.

(vii) 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.

(viii) 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.

## 2. **TMP2 Performance measurement**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the

subject of regular examination of alternative methods of service delivery and of other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

### **3. 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 the schedule to this document.

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

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

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice when entering into arrangements to use such products.

### **5. 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, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the ~~Director of Resources~~ Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The ~~Director of Resources~~ Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The ~~Director of Resources~~ Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the ~~Director of Resources~~ Chief Finance Officer in respect of treasury management is set out in the schedule to this document. The ~~Director of Resources~~ Chief Finance Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

## **6. 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 the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the 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 present arrangements and the form of these reports are detailed in the schedule to this document.

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

The ~~Director of Resources~~ Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The ~~Director of Resources~~ Chief Finance Officer will exercise effective controls over this budget, and will report any major variations.

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

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

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

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the ~~Director of Resources~~ Chief Finance Officer and, with the exception of Secondary Schools' bank accounts, will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the ~~Director of Resources~~ Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

## **9. 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 ensure that staff involved in treasury management activities are fully aware of their responsibilities with regards this. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

## **10. 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 present arrangements are detailed in the schedule to this document.

The ~~Director of Resources~~ Chief Finance Officer will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

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

The Council recognises that responsibility for treasury management decisions remains with the organization at all times. However, it also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Council's Contract Procedure Rules will always be observed. The

monitoring of such arrangements rests with the ~~Director of Resources~~ Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

## **12. 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 will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the ~~Director of Resources~~ Chief Finance Officer will monitor and, if necessary, report upon the effectiveness of these arrangements.