Kirklees
COUNCIL

Name and date of meeting:	**Council** **12 December 2018** **(Cabinet 11 December 2018)**
Title of report:	**Half Yearly Monitoring report on Treasury Management activities 2018/19**

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 2018/19 covering the period 1 April to 30 September 2018.

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?	**No**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Date signed off by Service Director** **Is it also signed off by the Service Director Legal Governance and Monitoring?**	**N/A** **Eamonn Croston – 8 November 2018** **Julie Muscroft – 8 November 2018**
Cabinet member portfolio	**Corporate** **Graham Turner**

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 £43.1 million during the period at an average rate of 0.56%. Investments have ranged from a peak of £70.8m in August and a low of £15.8m in April.

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 underspend by £5.4m in 2018/19 against an annual budget provision of £22.9m due to the change in Minimum Revenue Provision (MRP) policy which generated an underspend against baseline of £9.1m. Of this underspend, it is intended that £4.1m transfers to financial resilience reserves at year end, with the balance of £5.0m released in-year to support additional investment into high needs service in-year.

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 the Financial Outturn and Rollover Report 2017-18 presented to Council on 11 July 2018 included officer intentions to review current treasury management investment policy and consider options for future investment opportunities that could make additional returns for the Council. The report includes a recommendation to pursue a more diverse portfolio of investment in line with a significant amount of other Local Authorities through the Local Authorities Property Fund, subject to consideration of the potential risk and accounting treatment that is currently still being considered through a formal Government consultation.

2 Information required to take a decision

2.1 The treasury management strategy for 2018/19 was approved by Council on 14 February 2018. 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.

2.2 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.

<u>Economic Context</u>

2.3 The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.6 to 2.9 below in italics):

2.4 *The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for* *regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.*

2.5 *The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.*

2.6 *The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK nto the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.*

2.7 *The ring-fencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ring-fenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.*

Investment Performance

2.8 The Council invested an average balance of £43.1 million externally during the period (£41.3 million in the first six months of 2017/18), generating £120k in investment income over the period. Appendix 7 shows a comparative average net monthly balances invested over the last 3 years.

2.9 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.

2.10 The Council's average investment rate for the period was 0.56%. This is higher than the average in the same period in 2017/18 of 0.20%. This is mainly due to both the base rate increase to 0.75% in August 2017.

2.11 As per Appendix 3, the Council performed well against other Local Authorities when comparing internal investments. In order to gain better rates of return, the majority of Local Authorities performing better have further external investments in specific commercial property portfolios or a more diverse portfolio such as the Local Authorities Property Fund.

Borrowing Performance

2.12 Long-term loans at the end September totalled £395.4 million (£400.4 million 31 March 2018) and short-term loans £2.0 million (£0.9 million 31 March 2018). There has been no new long term borrowing so far this year. There isn't an expectation of any new additional long term borrowing this year.

2.13 Fixed rate loans account for 81.0% 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.

2.14 Appendix 5 sets out in year repayments on long term borrowing and also further re-payments for the next 6 months.

Revenue Budget Monitoring

2.15 The treasury management budget for 2018/19 currently stands at £22.9m. The latest budget monitoring shows an under-spend of £5.4m. The under-spend is mainly due to the revised Minimum Revenue Provision (MRP) policy to provide for MRP on the basis of the asset life to which external borrowing is incurred rather than the older version of a 4% reducing balance of the Capital Financing Requirement (CFR). 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. The balance of £0.4m treasury management underspend is due to a reduction in the need for short term borrowing due to further slippage in the Capital Plan.

Prudential Indicators

2.16 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.

2.17 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 2018/19

2.18 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

2.19 An authority can choose to finance its CFR through internal or external borrowing or a combination of the two.

2.20 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

	Actual 2017/18 £m	Strategy Estimate 2018/19 £m	Revised Forecast 2018/19 £m
General Fund CFR - Non PFI	420.3	458.9	429.8
PFI	52.3	49.3	49.3
HRA CFR - Non PFI	182.8	175.3	183.2
PFI	54.9	52.9	52.9
Total CFR	710.3	736.4	715.2
Less: PFI debt liabilities (1)	107.2	102.2	102.2
Borrowing CFR	603.1	634.2	613.0
Financed via;			
Deferred Liabilities (Non-PFI) (2)	4.0	3.9	3.9
Internal Borrowing	185.9	136.6	208.7
External Borrowing	413.2	493.7	400.4
Total	603.1	634.2	613.0
Investments	36.1	30.0	30.0

(1) £107.2m PFI Liability (£5.0m falling due in 2018/19)
(2) Deferred Liabilities = £1.0m Finance Lease (Civic Centre 1) & £3.0m Transferred Debt (Probation - Bradford, Waste Management - Wakefield & Magistrates Debt Charges)

2.21 The revised forecast takes into account the following factors;

a) General Fund CFR has reduced from £458.9m in the 2018/19 Strategy to £429.8m revised forecast due to further slippage and re-profiling within the Capital Plan.

b) Internal borrowing in the 2018/19 Strategy was £136.6m, this has now been revised up to £208.7m due to lower than forecast use of reserves.

2.22 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.

Future Treasury Management Strategy

2.23 The Financial Outturn and Rollover Report 2017-18 reported to Council on 11 July 2018 included officer intentions to review current treasury management investment policy and consider options for future investment opportunities that could make additional returns for the Council.

2.24 One such opportunity would be to invest in the Local Authority Properties Fund. Any Local Authority in England, Wales, Scotland and Northern Ireland can invest and the asset allocation is distributed across a mixture of mainly property portfolios across the UK, but is supplemented with cash investments (Appendix 8).

2.25 The Local Authorities Property Fund currently generates a gross yield of 4.47% (based on most recent quarter estimate) which is a far greater return than the current Council short-term investments due to the nature of the latter being more liquid and having greater security. However due to the diversification of the Local Authorities Property Fund portfolio, this still offers relatively more security than if the Council were to invest within individual commercial properties.

2.26 Officers consider that an investment of between £5m and £10m could be considered, given current average monthly balances available for investment of £43.1m, as noted earlier in the report at para 2.8, and also noting recent year available average monthly balances for investment, as shown in Appendix 7. This highlights the increased investment level in 2018-19 compared with 2017-18 and the potential for consideration of a £5m to £10m investment, with the majority of available balances still directed at short-term (liquid) investments, and some balances used for longer term investment.

2.27 Based on current yields, the anticipated annual investment income from £5m – £10m investment could be in the range £225k - £450k onging,

2.28 The Fund has previously offered both stable yields and capital gains over the last 10 years. However, it must be noted that this is heavily dependent on property prices and if there were to be a property crash the Council would incur a capital loss on any investment.

2.29 The introduction of a new code of accounting practice for local government, from April 2018 relating to Financial Instruments, would ordinarily mean that any movement in the fair value of the overall capital asset portfolio from year to year (positive or negative) , would now have a real impact on the Council's annual Comprehensive Income and Expenditure Statement and therefore would impact on the Council Tax payer.

2.30 However, Government is currently consulting on a statutory override to this requirement specifically in relation to the Local Authorities Pooled Investment Funds, albeit the override would be for 3 years only (to 1 April 2021). Councils are lobbying for the override to be made permanent. Therefore the potential for this change and the impact this could potentially have on the Council needs to be considered as part of an investment within such a fund. The outcome of this consultation is expected to be announced by Government later in the year.

2.31 The recently updated Prudential Code and Treasury Management Guidance which the Council will be formally adopting from 2019-20 onwards, notes that any investment in such funds (or individual commercial activity) should be proportionate to the requirements of the Council and should not be considered as a means to generate income without considering the potential impact if those investments were to generate a lower than expected return. It can be seen that some public sector bodies have pushed the boundaries in this area which may lead to a further revision in the updated CIPFA Code/Government Guidance in the future.

2.32 An investment with the Local Authority Property Fund, which has a diversified commercial portfolio throughout the UK would be seen as "non-treasury management activity” in that the purpose of holding such an investment is to generate a return rather than directly to service outcomes.

2.33 A further new requirement of the updated Treasury Management Code of Practice (2017) is to ensure management practice is in place for non-treasury management activity in addition to the existing 12 Treasury Management Practices (TMPs). This is outlined at the end of this report (Appendix 6).

2.34 The updated CIPFA Prudential and Treasury Management Codes also call for more robust management of commercial activity and capital borrowing, acknowledging the increasing trend over more recent years for Councils to investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. The prudential code takes the same position as the statutory guidance, and it is clear that authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. An investment in the CCLA Property Fund would not fall in to this category as it will not be funded by new borrowing, it would be utilising current day to day cash balances.

Risk and Compliance issues

2.35 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

3 Implications for the Council

3.1 The treasury management underspend has been incorporated into the overall Quarter 2 financial monitoring report presented to Cabinet on 13 November 2018.

3.2 The outcome of the statutory override consultation on the Local Authority Property Fund will be reported back to members in due course.

4 Consultees and their opinions

This report was considered and endorsed at Corporate Governance and Audit Committee on 16 November 2018 and will be submitted to Cabinet for consideration on 11 December 2018. Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

For Council to approve the recommendations of this report.

6 Officer recommendations and reasons

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

6.1 Note the half-year treasury management performance in 2018-19 as set out in the report;

6.2 Approve officer proposals for an amendment in the Council's current investment strategy to include the Local Authority Property Fund as a potential investment source;

6.3 Consider proposals for officers to further explore an investment opportunity of between £5m and £10m in the Fund, and subject to further Government clarification on the statutory override, and other risk considerations, to formalise any such proposals into the forthcoming 2019/20 annual treasury management strategy and annual budget for further member consideration

7 Contact officer

James Anderson Senior Finance Manager 01484 221000

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
Council Budget Strategy Update Report 2019-22 – Council 11 October 2018
Annual Report on Treasury Management 2017-18 - Annual Financial Outturn and Rollover Report 2018-19; Council 11 July 2018.

9 Service Director responsible

Eamon Croston 01484 221000

Appendix 1

Kirklees Council Investments 2018-19

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2018*	1 April 2018 (opening)			30 June 2018			30 September 2018		
					£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment
Specified Investments													
London Borough of Newham		10.0	-	-				8.0	0.55%	1 month			
Bank of Scotland	Bank	10.0	F1	F1/A+									
Lloyds	Bank	10.0									6.0	0.75%	32 Day Notice
Santander	Bank	10.0						5.0	0.55%	35 Day Notice	7.0	0.85%	35 Day Notice
Handelsbanken	Bank	10.0	F1	F1+/AA							6.7	0.77%	35 Day Notice
Std Life (Ignis)	MMF**	10.0	AAA-A	AAA	9.9	0.46%	MMF	10.0	0.53%	MMF	9.9	0.67%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa	10.0	0.42%	MMF	9.8	0.51%	MMF	9.9	0.67%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	9.0	0.37%	MMF	6.5	0.45%	MMF	1.7	0.64%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	7.2	0.37%	MMF	10.0	0.47%	MMF	9.9	0.64%	MMF
					36.1			**49.3**			**51.1**		
Sector analysis													
Bank		10.0 each						5.0	10%		19.7	39%	
Building Society		10.0 each											
MMF**		40.0			36.1	100%		36.3	74%		31.4	61%	
Local Authorities/Cent Govt		Unlimited						8.0	16%				
					36.1	100%		**49.3**	100%		**51.1**	100%	
Country analysis													
UK								13.0	26%		13.0	25%	
Sweden											6.7	13%	
MMF**					36.1	100%		36.3	74%		31.4	62%	
					36.1	100%		**49.3**	100%		**51.1**	100%	

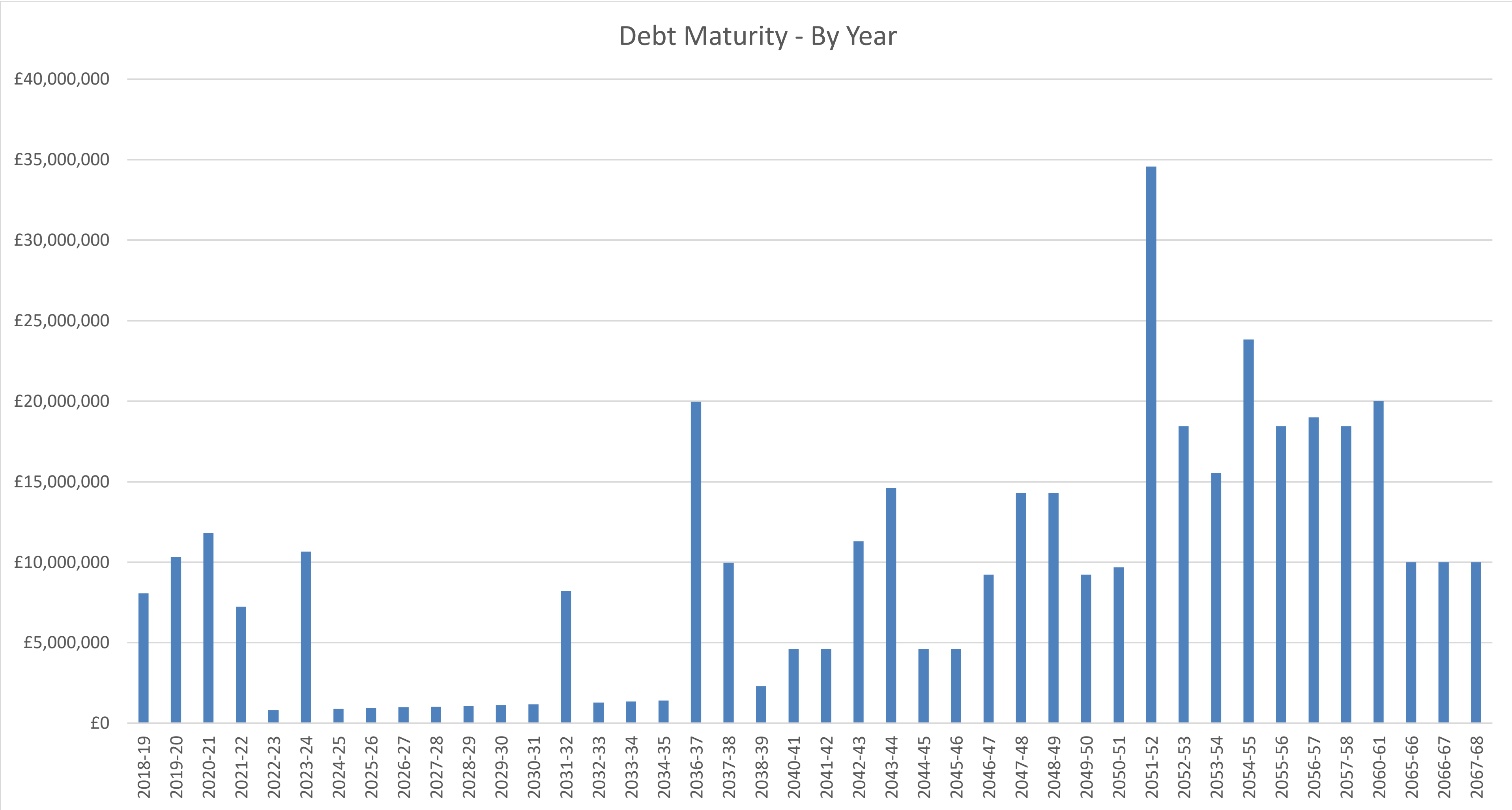
*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

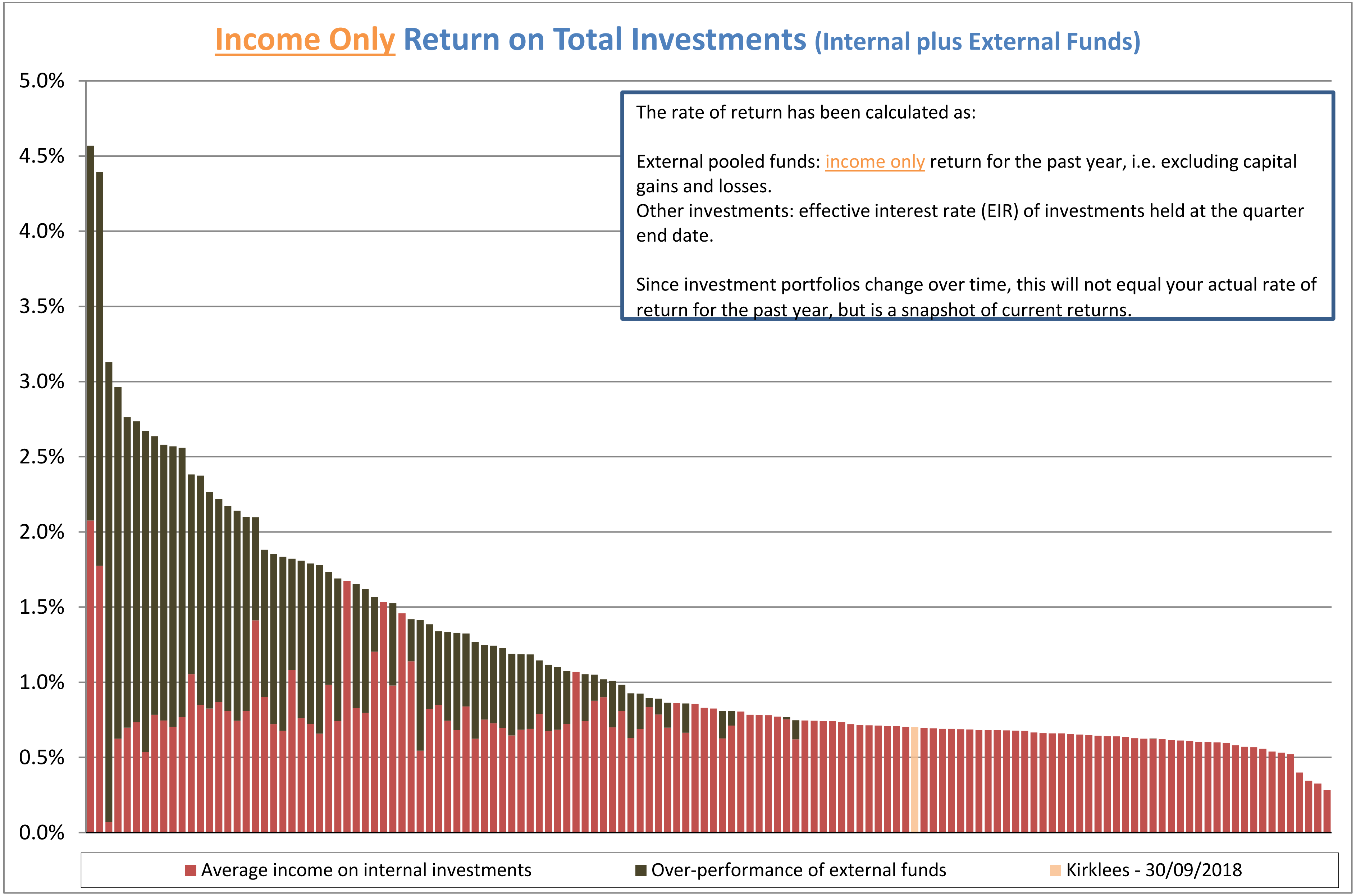
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva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

<u>Key – Fitch's credit ratings</u>: **Appendix 1 Continued**

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

Appendix 2


Debt Maturity - By Year
£40,000,000
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
2025-26
2026-27
2027-28
2028-29
2029-30
2030-31
2031-32
2032-33
2033-34
2034-35
2036-37
2037-38
2038-39
2040-41
2041-42
2042-43
2043-44
2044-45
2045-46
2046-47
2047-48
2048-49
2049-50
2050-51
2051-52
2052-53
2053-54
2054-55
2055-56
2056-57
2057-58
2060-61
2065-66
2066-67
2067-68



Income Only Return on Total Investments (Internal plus External Funds)
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
The rate of return has been calculated as:
External pooled funds: income only return for the past year, i.e. excluding capital gains and losses.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
Average income on internal investments
Over-performance of external funds
Kirklees - 30/09/2018

APPENDIX 4

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 2018 - 19	Estimated Actual* 2018 - 19
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.

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 2018 - 19	Est'd Actual 2018 - 19
Under 12 months	0% - 20%	2%
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%	86%

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 01/04/18 to 30/09/18

	Amount £000s	**Rate %**	**Date repaid**
PWLB (498438) - Maturity	4,613	4.10	17 Sept 18
PWLB (496956) - Annuity	337	4.58	29 Sept 18
Total	4,950		

Long-term loans to be repaid during the period 01/10/18 to 31/03/2019

	Amount £000s	**Rate %**	**Date to be repaid**
PWLB (476734) – Maturity	2,768	4.24	23 Dec 18
PWLB (496956) - Annuity	344	4.58	29 Mar 19
Total	3,112		

Appendix 6

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 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 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 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 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 Chief Finance Officer in respect of treasury management is set out in the schedule to this document. The 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 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 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 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 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 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 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 Chief Finance Officer will monitor and, if necessary, report upon the effectiveness of these arrangements.

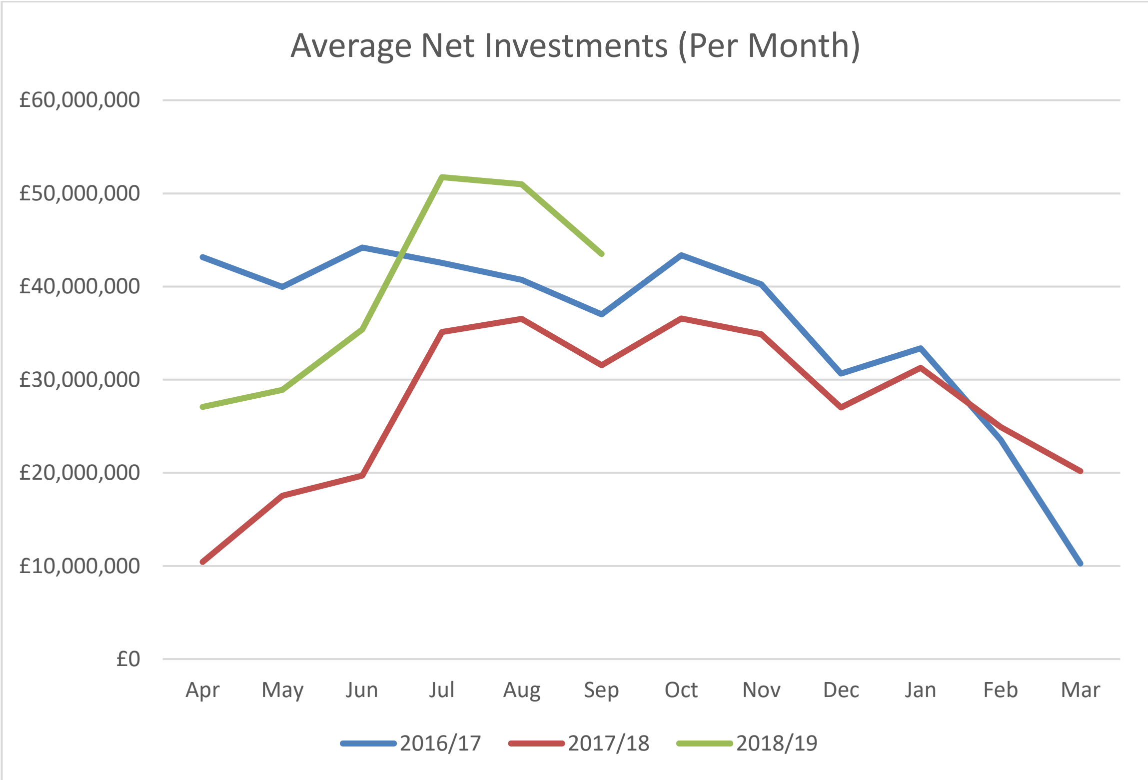
Management Practices for Non-Treasury Investments

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

The Council will ensure that all investments are covered in the Capital and Investment Strategies, and will set out where appropriate, the Councils risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management.

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

Appendix 7



Average Net Investments (Per Month)
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2016/17
2017/18
2018/19

Appendix 8