

# **CODE OF PRACTICE FOR TREASURY MANAGEMENT PRACTICES**

**SEPTEMBER 2005**

**SEDGEFIELD BOROUGH COUNCIL**

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## 1. INTRODUCTION

The Council has adopted this Code of Practice for Treasury Management Activities, taking into account the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## 2. STATUS

Under the Local Government Act 2003, authorities have to have regard to any guidance issued either specifically by the Secretary of State or identified in regulations. In carrying out its capital finance functions, the Council must have regard to the code of practice 'Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes.'

Nothing in this Code overrides or should be taken as overriding statutory provision. Nor does the adoption of this Code make vires anything that is otherwise ultra vires.

## 3. TREASURY MANAGEMENT POLICY STATEMENT

The Council has adopted the following to define the policies and objectives of its treasury management activities:

1. This Council defines its treasury management activities as:

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

2. The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance management techniques, within the context of effective risk management.

## 4. TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the way in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. Each section begins with a statement of **Principles** for each area of practice. Specific details of the systems and routines to be employed and the records to be maintained take the form of **Schedules** which follow the relevant TMP.

## TMP1 TREASURY RISK MANAGEMENT

### PRINCIPLES:

“The Director of Resources will design, implement and monitor arrangements for the identification, management and control of treasury risk management, 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 Council’s objectives in this respect, all in accordance with the procedures set out in TMP 6 *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.”

#### [1] Liquidity risk management

“This Council will ensure that 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.”

#### [2] Interest rate risk management

“This Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest income, in accordance with the amounts provided in the annual budget in accordance with TMP 6 *Reporting requirements and management information arrangements*.

It will achieve this objective by 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 of structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.”

#### [3] Exchange rate risk management

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

It will achieve this objective by 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 of structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.”

#### [4] Inflation risk management

“The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this objective by 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 of structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.”

#### **[5] Credit and counterparty risk management**

“This Council regards a prime objective of its treasury management activities to be the security of the principle sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards Institutions with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP 4 Approved Instruments, methods and techniques* and listed in the schedule to this document. It also recognizes the need to have, and will therefore maintain, a formal counterparty policy in respect of those Institutions from which it may borrow, or with whom it may enter into other financing arrangements.”

#### **[6] Refinancing risk management**

“This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council 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 jeopardize achievement of the above.”

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

“This Council will ensure that all of its treasury management activities comply with 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 *TMP1.5 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 Council, particularly with regard to duty of care and fees charged.

This Council recognizes 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 minimize the risk of these impacting adversely on the Council.”

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

“This 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.”

#### **[9] Market risk management**

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

## **SCHEDULES:**

### **1.1 LIQUIDITY RISK MANAGEMENT**

#### **Liquidity Risk**

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

#### **1.1.1 Amounts of approved minimum cash balances and short-term investments**

The Treasury Management section shall seek to ensure that the balance held in the Council's main bank accounts at the close of each working day is held at a level in order to minimize the amount of bank overdraft interest payable, and maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

The target is to achieve a net overall pooled bank balance of nil within the Council's current bank accounts on a daily basis. The performance will be monitored on a daily basis by the Council's Loans Officer and Policy and Finance Manager.

#### **1.1.2 Bank overdraft arrangements**

A £0.350m overdraft at 1% over base has been agreed as part of the bank tender. The overdraft is assessed on a group basis for the Councils accounts.

#### **1.1.3 Short-term borrowing facilities**

The Council can access temporary loans through approved brokers on the London money market. The approved borrowing limit for short-term debt is 50% of the overall loan debt.

#### **1.1.4 Insurance/Fidelity guarantee facilities**

See TMP 1.8.3 which provides details of the Council's insurance / Fidelity guarantee facilities to mitigate risks.

#### **1.1.5 Closure of Council Offices**

When the Council offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Loans Officer undertakes transfers, anticipating cash flow within the Council's accounts.

### **1.2 INTEREST RATE RISK MANAGEMENT**

#### **Interest rate risk**

*The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.*

#### **1.2.1. Details of approved interest rate exposure limits**

This risk is considered as part of the Treasury Management Strategy Statement approved by Council in February/March each year. The Strategy contains interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Council. The Council will have regard to potential fluctuations in

interest rates when borrowing or lending surplus cash. Advice will be sought from the Council's Treasury Management advisors before any non-routine transaction is made.

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

These will be undertaken in consultation with the Council's treasury advisers at regular treasury strategy meetings.

### **1.2.3 Minimum/maximum proportions of variable rate debt/interest**

The maximum proportion of interest on borrowing which is subject to variable rate interest.	50%
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The minimum proportion of interest on borrowing which is subject to variable rate interest	0%
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### **1.2.4 Minimum/maximum proportions of fixed rate debt/interest**

The minimum proportion of interest on borrowing which is subject to fixed rate interest.	100%
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The maximum proportion of interest on borrowing which is subject to fixed rate interest	100 %
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### **1.2.5 Policies concerning the use of financial derivatives and other instruments for interest rate management.**

Each of the following types of instruments will only be used with the approval of the Director of Resources and in consultation with the Council's treasury advisors:

Forward dealing  
Callable deposits  
LOBOS (borrowing using a 'lender's option/borrower's option' facility)

## **1.3 EXCHANGE RATE RISK MANAGEMENT**

### **Exchange rate risk**

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

### **1.3.1 Approved criteria for managing changes in exchange rate levels**

Sedfield Borough Council rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange

transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

#### **1.4 INFLATION RISK MANAGEMENT**

##### **Inflation risk**

*The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.*

##### **1.4.1. Details of approved inflation exposure limits for cash investments/debt**

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

##### **1.4.2. Approved criteria for managing changes in inflation levels**

Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

#### **1.5 CREDIT AND COUNTERPARTY RISK MANAGEMENT**

##### **Credit and counterparty risk**

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

##### **1.5.1 Criteria to be used for creating/managing approved counterparty lists/limits**

- a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. This criteria will follow the ODPM investment guidance (issued March 2004).
- b) Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
- c) Credit ratings will be used as supplied from one or more of the following credit rating agencies: -
  - Fitch Ratings
  - Moody's Investors Services
  - Standard and Poor's
- d) The Council's Treasury Management Consultants are required to provide a regular update of all ratings relevant to the Council, and updated rating information be e-mail where ratings change.



- e) The approved counterparty list takes into account the Council's Annual Investment Strategy (which takes into account guidance issued by the secretary of state concerning local authority investments) and is based on the following criteria: -

### Specified Investments

These investments are sterling dominated of not more than one-year in maturity, or those which could be for a longer period but where the Council has a right to be paid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible.

<b>Specified Investment Category</b>	<b>Credit Rating</b>	<b>Max Period</b>
<b>UK Government</b> – including Debt management Office, UK Treasury Bills or gilts with less than one year to maturity	High security. No Credit rating criteria needed.	1 year
<b>Supranational Bonds</b> – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	High security. No Credit rating criteria needed	1 year
<b>Local Authority, Parish or Community Council</b>	High security. No Credit rating criteria needed	1 year
<b>Money Market Funds (Investment Schemes)</b>	AAA rating by Fitch, Moody's and Standard and Poors	1 year
<b>Highly Credit Rated Body</b> – investments made with a bank/building society from the Council's counterparty list	Short term rating of at least F1 (or equivalent) or minimum asset size of £200m.	1 year

### Non - Specified Investments

Non –specified investments are any other type of investment (i.e. not defined as specified investments above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

<b>Non -Specified Investment Category</b>	<b>Limit (£)</b>
<b>Supranational Bonds greater than 1 year to maturity</b> – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	£20m
<b>Gilt edged securities greater than 1 year to maturity</b> – Government bonds providing the highest level of security.	£20m
<b>Building Societies not meeting the basic security requirements under the specified investments</b> – the Council may use such building societies which have a minimum asset size of £200m .	£20m

<b>Non -Specified Investment Category</b>	<b>Limit (£)</b>
Any <b>Bank or Building Society</b> that has a minimum long term credit rating of F1+ for deposits of greater than one year (including forward deals in excess of one year from inception to repayment) or minimum asset size of £200m.	£20m
Any <b>Non rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company.	£5m
<b>Share capital or loan capital</b> in a body corporate – the use of these instruments will count as capital expenditure and will be an application of capital resources. Revenue resources will not be invested in corporate bodies.	£5m

### **1.5.2 Approved methodology for changing limits and adding/removing counterparties**

Credit ratings for individual counterparties can change at any time. The Director of Resources is responsible for applying the stated credit rating criteria in 1.5.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to the Loans Officer.

The Director of Resources will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.5.1. This is delegated on a daily basis to the Loans Officer.

## **1.6 REFINANCING RISK MANAGEMENT**

### **Refinancing risk**

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

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

The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Council's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) The generation of cash savings at minimum risk;
- b) To reduce the average interest rate;
- c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

### **1.6.2 Projected capital investment requirements**

The Council will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the

Council's financial plans covering a three-period and is updated on an annual basis. Officers prepare detailed forecasts covering a longer-term horizon for internal purposes.

### **1.6.3 Policy concerning limits on revenue consequences of capital financings**

As part of compliance with the CIPFA Prudential Code, the Council will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent and sustainable.

## **1.7 LEGAL AND REGULATORY RISK MANAGEMENT**

### **Legal and regulatory risk**

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

### **1.7.1 References to relevant statutes and regulations**

The treasury management activities of the Council shall comply with legal statute and the regulations of the Council. These are:

- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management Code of Practice 2001
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- CIPFA Standard of Professional Practice on Treasury Management
- Local Government Act 2003
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Councils Standing Order relating to Contracts
- Councils Financial Regulations
- Council's Scheme of Delegated Functions
- SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)
- ODPM Local Government Investment Guidance under section 15(1)(a) – 12<sup>th</sup> March 2004

### **1.7.2 Procedures for evidencing the Council's powers/authorities to counterparties**

The Council will prepare, adopt and maintain, as the cornerstones for effective treasury management:-

- A Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities.
- Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

### **1.7.3 Required information from counterparties concerning their powers/authorities**

Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Sedgefield Borough Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

#### **1.7.4 Statement on the Council's political risks and their management**

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

### **1.8 FRAUD, ERROR AND CORRUPTION, BUSINESS CONTINUITY AND CONTINGENCY MANAGEMENT ARRANGEMENTS**

#### **Fraud, error and corruption, business continuity and contingency risk**

*The risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

#### **1.8.1 Details of systems and procedures to be followed, including internet services**

The Treasury Management function is subject to a regular review by the Council's Internal Audit Service.

##### **Authority:**

- Loan procedures are defined in the Council's Financial Regulations.
- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Director of Resources or authorized persons.

##### **Occurrence:**

- Detailed register of loans and investments is maintained. This is independently checked to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

##### **Completeness:**

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates.

**Measurement:**

- The Financial Services Section checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The Financial Services Section calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

**Timeliness:**

- The Loans Officer maintains an up to date diary and register that clearly identifies when money borrowed or lent is due to be repaid.

**Regularity:**

- Lending is only made to institutions on the Approved List.
- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution (see 1.5.1).
- Brokers have a list of named officials authorised to perform loan transactions.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.
- There is a separation of duties in the Section between the repayment of a loan and its authorization.
- The bank reconciliation is carried out regularly from the bank statement to the financial ledger.

**Security:**

- The 'Financial Director System', which is provided by the Co-operative Bank to allow direct access to the Council's bank accounts, can only be accessed by a password.
- Payments can only be authorised by an agreed bank signatory. The list of signatories having previously been agreed with the current provider of our banking services.

**Substantiation:**

- A quarterly reconciliation is carried out matching transactions from the treasury system to the financial ledger codes.

**1.8.2 Contingency planning and business continuity management arrangements**

If the Treasury Management PC fails, the 'Financial Director System' can be accessed via another PC. All spreadsheets are held on the shared drive and therefore can be accessed by other PC's if necessary.

If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can also be obtained verbally or by fax from the Co-op Bank, and CHAP payment instructions, which are normally input directly into 'Financial Director System', can be faxed to the bank for their processing.

In the event of a business continuity problem, which prevents access to the Financial Director System, the present contingency management arrangements will be invoked.

### **1.8.3 Insurance cover details**

The Council has 'Fidelity Guarantee' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees to a maximum £3m in respect of a number of designated post holders and £250,000 in respect of all other staff.

## **1.9 MARKET RISK MANAGEMENT**

### **Market risk**

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

### **1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc)**

The Council does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Council does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

## TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

### PRINCIPLES:

“This 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 will be the subject of ongoing analysis of the value it adds in support of the Council’s stated business or service objectives. There will be a regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope 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.”

### SCHEDULES:

#### **2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS**

The Council’s Treasury Management consultants are required to carry out a health check of our Treasury Management function.

#### **2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT**

##### **2.2.1 Frequency and processes for tendering**

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

##### **2.2.2 Banking services**

Banking services will be tendered for every five years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

##### **2.2.3 Money-broking services**

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services.

##### **2.2.4 Consultants’/advisers’ services**

This Council’s policy is to appoint professional treasury management consultants and separate leasing advisory consultants.

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

The Council’s current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

Should it be necessary to engage the services of one or more external fund managers to assist in the treasury management function, the Director of Resources will produce a comprehensive report identifying:

- The procedures to be followed for the appointment
- The basis of the fees to be paid
- The reporting requirements
- The targets to be set
- The performance measurement against appropriate benchmarks
- The requirement for suitable indemnities and security for due performance

### **2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE COUNCIL'S TREASURY MANAGEMENT ACTIVITIES**

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and compliance with the CIPFA Code of Treasury Practice.

Performance will be monitored monthly against approved budgets and internally agreed targets.

### **2.4 BENCHMARKS AND CALCULATION METHODOLOGY:**

#### **2.4.1 Debt management**

*Data – total interest payable as a percentage of long term loans outstanding*  
*Comparator – similar rates of other local authorities – estimated average rate*

The Council will look to reduce the average rate of interest payable on all external debt (consolidated rate of interest) on a year by year basis.

#### **2.4.2 Investment**

*Data – average rate of interest earned on all investments.*  
*Comparator – the average seven day rate applicable to local authorities.*

The performance of in house investment earnings will be measured against the 7 day London Interbank Bid Rate (LIBID). This is the clearing rate that banks lend to other banks and institutions.

Performance will also be measured against other local authority funds with a similar benchmark.



## TMP 3 DECISION-MAKING AND ANALYSIS

### PRINCIPLES:

“This 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 of this document.”

### SCHEDULES:

#### 3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

##### 3.1.1 Records to be kept

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

- Daily cash projections.
- Telephone / e-mail rates.
- Dealing slips for all money market transactions – including rate changes.
- PWLB loan schedules.
- Local bond certificates (if used).
- Market bond certificates (if used).
- Temporary loan receipts (if used).
- Brokers confirmations for deposits/investments.
- Contract notes received from fund managers (if used).
- Fund managers valuation statements (if used).
- Confirmation notes from borrowers.

##### 3.1.2 Processes to be pursued

- Cash flow analysis.
- Maturity analysis.
- Ledger reconciliations
- Review of borrowing requirement.
- Monitoring of projected loan charges and interest and expenses costs.
- Review of opportunities for debt rescheduling.
- Collation of monthly performance information.

##### 3.1.3 Issues to be addressed.

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

- Above all be clear about the nature and extent of the risks to which the Council may become exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping

- Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- Consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

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

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

# TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

## PRINCIPLES:

“This 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 TMP 1 *Risk management*.”

## SCHEDULES:

### 4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with the Council’s capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Leasing.

### 4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will comply with the Council’s Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

- Term deposits with banks and building societies up to a maximum of 5 years
- Term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria
- Debt Management Office
- Gilts
- Supranational bonds
- Money market funds that meet the criteria set in the investment policy
- Term deposits with other Local Authorities and Parish Councils

### 4.3 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act, 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These could include:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●

Internal (capital receipts & revenue balances)	●	●
Leasing (not operating leases)	●	●

**Other Methods of Financing**

These include Government and EC Capital Grants, lottery monies, PFI/PPP, Operating leases and other capital contributions from relevant partners and stakeholders.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Resources has delegated powers, in accordance with the Officers' Scheme of Delegation within the Constitution and the Treasury Management Strategy, to borrow using the most appropriate sources.

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

### **PRINCIPLES:**

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

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

If and when this Council intends, as a result of lack of resources or for any other circumstances, to depart from these principles, the Director of Resources will ensure that the reasons are properly reported in accordance with TMP 6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Director of Resources 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 present arrangements are detailed in the schedule of this document.

The delegations to the Director of Resources in respect of treasury management are set out in the schedule to this document. The Director of Resources will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*."

### **INDEX OF SCHEDULES:**

- 5.1 Limits to responsibilities/discretion at Council/Director levels**
- 5.2 Principles and practices concerning segregation of duties**
- 5.3 Treasury management organisation chart**
- 5.4 Statement of duties/responsibilities of each Treasury post and other officers involved with Treasury Management**
- 5.5 Absence cover arrangements**
- 5.6 Dealing Limits**
- 5.7 List of approved brokers**
- 5.8 Policy on brokers' services**
- 5.9 Policy on taping of conversations**
- 5.10 Direct dealing practices**
- 5.11 Settlement transmission procedures**
- 5.12 Documentation requirements**
- 5.13 Arrangements concerning the management of third-party funds.**

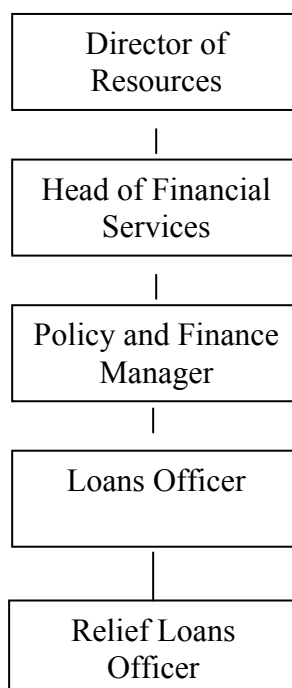
### **5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COUNCIL/DIRECTOR LEVELS**

- Council will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy.
- The Director of Resources will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- The Director of Resources will approve the segregation of responsibilities.
- The Director of Resources will receive and review external audit reports.
- Approving the selection of external service providers and agreeing terms of appointment will be decided by the Director of Resources, in accordance with the Constitution.

### **5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES**

- The Director of Resources in consultation with the Head of Financial Services authorizes all new long-term borrowing.
- Transactions relating to pre-existing agreements are also delegated to the Head of Financial Services.
- Short-term borrowing and investment can be authorised by the Head of Financial Services, Policy and Finance Manager, Accountancy Services Manager or Audit Services Manager.

### **5.3 TREASURY MANAGEMENT ORGANISATION CHART**



## **5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST AND OTHER OFFICERS INVOLVED WITH TREASURY MANAGEMENT**

### **5.4.1 Director of Resources**

- a) The Director of Resources will:
- i) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
  - ii) Submit treasury management policy reports as required.
  - iii) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
  - iv) Receive and review management information reports.
  - v) Review the performance of the treasury management function and promote best value reviews.
  - vi) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
  - vii) Ensure the adequacy of internal audit, and liaising with external audit.
  - viii) Recommend on appointment of external service providers in accordance with the Constitution.
- b) The Director of Resources has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- c) The Director of Resources may delegate his power to borrow and invest to members of his staff. The Head of Financial Services must conduct all dealing transactions, or staff authorised by the Director of Resources to act as temporary cover for leave/sickness. All transactions must be authorised by an officer named in 5.2 above.
- d) The Director of Resources will ensure that the Policy is adhered to, and if not will bring the matter to the attention of the Chief Executive and, if necessary, elected members as soon as possible.
- e) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Resources to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Constitution.
- f) It is also the responsibility of the Director of Resources to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

### **5.4.2 Head of Financial Services**

The Head of Financial Services will:-

- a) Ensure a tri-annual review of the Treasury Management Policy Statement.
- b) Ensure preparation of Treasury Management Reports.
- c) Review the investment counterparty list and recommend any changes to the Director.

- d) Ensure numbers of sufficiently trained staff are adequate.
- e) Monitor performance and report to Director as necessary.
- f) Review annually the internal scheme of management.
- g) Liaise with consultants on strategic issues.

#### **5.4.3 Policy and Finance Manager**

The Policy and Finance Manager will:

- a) Ensure that transactions are executed
- b) Ensure adherence to agreed policies and practices on a daily basis
- c) Carry out a tri-annual review of the treasury management policy statement
- d) Supervise treasury management staff
- e) Maintain relationships with third parties and external service providers
- f) Monitor performance on a day to day basis
- g) Submit management information reports to the Head of Financial Services
- h) Identify and recommend opportunities for improved practices
- i) Develop and maintain suitable treasury management practices

#### **5.4.4 Loans Officer**

The Loans Officer will:

- a) Prepare weekly cash flow forecasts
- b) Prepare a daily cash requirement
- c) Take dealing decisions consistent with weekly forecasts
- d) Maintain weekly, monthly and annual cashflow forecasts for Treasury Management purposes
- e) Prepare reports on transactions and balances as required from time to time
- f) Maintain a register of lending, borrowing and repayments
- g) Reconcile treasury activity in relation to lending, borrowing and repayments to the financial management system

#### **5.4.5 Relief Loans Officer**

Relief Loans Officer will carry out the duties normally undertaken by the Loans Officer, as outlined in 5.4.4 above.

#### **5.4.6 Chief Executive**

The responsibilities of this post will be to ensuring that the Director of Resources reports regularly to Cabinet on treasury policy, activity and performance.

#### **5.4.7 Head of Legal Services (in the role of monitoring officer)**

The responsibilities of this post will be: -

- a) Ensuring compliance by the Director of Resources with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Director of Resources when advice is sought.

#### **5.4.8 Internal Audit**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures.
- b) Reviewing division of duties and operational practice.



- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of the treasury function.

**5.5 ABSENCE COVER ARRANGEMENTS**

The Head of Financial Services is responsible for ensuring that the number of trained staff is adequate (refer to 5.4.2(d)).

**5.6 DEALING LIMITS**

Persons authorised to deal are identified at 5.4.4 and 5.4.5 above and dealing limits will be determined by the Director of Resources or Head of Financial Services.

**5.7 LIST OF APPROVED BROKERS**

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

**5.8 POLICY ON BROKERS' SERVICES**

It is Council's policy to divide business between brokers.

**5.9 POLICY ON TAPING OF CONVERSATIONS**

It is not Council Policy to tape brokers conversations

**5.10 DIRECT DEALING PRACTICES**

It is an acceptable practice for the Council to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

**5.11 SETTLEMENT TRANSMISSION PROCEDURES**

Each transaction must be submitted and then authorized by any one of the officers shown below. The transfer is then processed electronically using the 'Financial Director' system by 15:30 on the day of the transaction.

*Authorised Officers: Head of Financial Services, Policy and Finance Manager, Audit Services Manager, Accountancy Services Manager.*

**5.12 DOCUMENTATION REQUIREMENTS**

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

**5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS**

Arrangements regarding the vetting of counterparties are referred to in TMP 9 *Money Laundering*.

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS**

### **PRINCIPLES:**

“This 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 treasury management activities; and on the performance of the treasury management function.

As a minimum, Council will receive:

- i) an annual report on the strategy and plan to be pursued in the coming year
- ii) an annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council’s treasury management policy statement and TMPs..

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

### **SCHEDULES:**

#### **6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT**

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to Council for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

- The current treasury portfolio position;
- The expected movement in interest rates;
- The borrowing and debt strategy;
- The annual investment strategy;
- The prudential indicators for capital finance and treasury management limits including local Treasury Management indicators and Prudential indicators and limits;
- Any extraordinary treasury issue.

#### **6.2 ANNUAL REPORTING ON TREASURY MANAGEMENT ACTIVITY**

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

- a) Performance against strategy:
  - Long term borrowing from PWLB

- Premature redemption of debt
  - Long term debt – other than PWLB
  - Summary of all long term loan transactions
  - Investments
- b) Economic trends during financial year  
 c) Compliance with the Council's procedures and external requirements  
 d) Risk, performance and corporate governance  
 e) Treasury Management consultants  
 f) Money Brokers

### **6.3 MANAGEMENT INFORMATION REPORTS**

Management information reports will be prepared on a regular basis by the Policy and Finance Manager and will be presented to the Head of Financial Services.

The reports will contain the following information:-

A summary of transactions executed

Measurements of performance

Degree of compliance with original strategy and explanation of any variances

### **6.4 PERIODIC MONITORING REPORTS**

Council will consider as a minimum:

An annual strategy statement before the commencement of the new financial year.

An annual review of treasury management activity before the 30<sup>th</sup> September after the year end to which it relates.

# TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

## PRINCIPLES:

“The Director of Resources will prepare, and this 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 expenditure incurred with regard to the activity, together with the 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*, TMP 2 *Best value and performance measurement*, and TMP 4 *Approved instruments, methods and techniques*. The form which this Council’s budget will take is set out in the schedule to this document. The Director of Resources will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting Requirements and Management Information Arrangements.

This 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 Council’s accounts is set out in the schedule to this document.

This Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers surrounding 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.”

## SCHEDULES:

### 7.1 **STATUTORY/REGULATORY REQUIREMENTS**

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

### 7.2 **ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA’s Treasury Management in the Public Services – Code of Best Practice and Cross Sectoral Guidance Notes (the ‘CIPFA Code and Guide’), together with those of its specific recommendations that are relevant to this Council’s treasury management activities.

### 7.3 **BUDGETING AND ACCOUNTING ARRANGEMENTS**

The Policy and Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Policy and Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 above.

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for that purpose.

#### **7.4 LIST OF INFORMATION REQUIREMENTS OF INTERNAL AND/OR EXTERNAL AUDITORS**

Both Internal and External Auditors have access to prime documents of: cash flow history, authorized documentation of transactions made, loans and fixed investment register and general ledger transaction listings. In addition, addresses of counterparties are supplied as necessary for independent verification of loans held.

## TMP 8 CASH AND CASH FLOW MANAGEMENT

### PRINCIPLES:

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

### SCHEDULES:

#### 8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Cash flow projections are prepared annually, monthly, weekly and daily. The annual and monthly cash flow projections are prepared from the previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

#### 8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

National Non Domestic Rates, Revenue Support Grant, Housing Benefit, Housing Subsidy payments and receipts  
County Council, Police Authority, Fire Authority, and Parish and Town Council precepts  
Creditor payments - daily  
PWLB interest/principal – various  
Leasing instalments - various

#### 8.3 LISTING OF SOURCES OF INFORMATION

Estimated cashflow details are compiled using:

- a) Schedule of Payment of National Non Domestic Rates, Revenue Support Grant, Housing Benefit, Housing Subsidy and any other payments or receipts from Central Government Departments.
- b) Council Tax Precept dates and amounts,
- c) Notifications from the Accountancy section of any significant grants expected during the year.
- d) Schedule of payroll payment dates supplied by the Payroll section, Resources department, with an estimated amount based on the previous years payments. The actual amounts will be available from Payroll section a few days before payment is due.
- e) PWLB and other Long Term Loans Payments schedule.
- f) An estimated figure for creditor payments, based on previous patterns of expenditure. More accurate figures can be obtained two days before payment based on the Creditor BACs figure, available from Control Services, and

notification of any large cheques due, supplied by the Revenues Section section.

#### **8.4 BANK STATEMENTS PROCEDURES**

Income and expenditure transactions on the Bank statement are allocated to the appropriate General Ledger accounts. Regular reconciliations are undertaken to ensure that all transactions are recorded in the appropriate General Ledger account.

#### **8.5 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

The Council's aim is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 14 days.

#### **8.6 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS**

The Financial Services Section provides each department with monthly reports detailing the debtor, the amount outstanding and the age of outstanding debts.

The Financial Services Section provides each department and the Director of Resources with monthly statistics of invoices paid and the percentage paid within 30 days.

#### **8.7 PROCEDURES FOR BANKING OF FUNDS**

All money received by an officer on behalf of the Council will without unreasonable delay be deposited in the Council's bank accounts. No deductions may be made from such money save to the extent that the Director of Resources may specifically authorize.

#### **8.8 PRACTICES CONCERNING PREPAYMENTS**

All prepayments must be authorised by the Director of Resources.

## TMP 9 MONEY LAUNDERING

### PRINCIPLES:

“This Council is alert to the possibility that it may become the subject of an attempt 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 the schedule to this document.”

### SCHEDULES:

#### 9.1 TREASURY MANAGEMENT PURPOSES

##### 9.1.1 Training

Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the Internet. The Council’s nominated Money Laundering Reporting Officer (MLRO) will be required to attend specific professional courses on money laundering developments to ensure knowledge is kept up to date.

##### 9.1.2 Material and regular deposits or borrowing

For all investment or borrowing counterparties, the Council will ensure that the counterparty has been suitably identified. This will take the form of:

###### a) Investment Counterparties

All investment counterparties which are maintained on the Council’s lending list should be a deposit taker authorised by a regulatory body (e.g. the FSA {check via [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register)}). As such the identification procedures usually required above do not apply since the institution carries out relevant business in the UK. Those counterparties not authorised as a deposit taker through the FSA are institutions, such as the Bank of England or Post Office, are not required to be the subject of stringent identification procedures, but the Council will review these on a case by case basis.

###### b) Borrowing Counterparties

All borrowing counterparties are dealt with through either of the following routes:

i) Via Money brokers – In this instance Money Laundering Regulations 5(2) applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK. However even when dealing via a broker it is the Council’s responsibility to verify the counterparty, not the broker’s; or

ii) Direct dealing – In this instance the Council uses only recognized names, ones with credit ratings and to which the Council has reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions (such as Bank of England or Post Office), the nature of their business does not require stringent identification procedures, but the council will undertake procedures to “know the counterparty”.



If any Treasury investment counterparties are not known to the Council the treasury officer will ensure identification of the counterparty by checking the credit rating of the organisation via the Council's Treasury advisers. This would normally be undertaken during the compilation of the counterparty list. If the counterparty is neither credit rated, nor known to be carrying on regulated business (e.g. FSA), the Council will not deal with that organisation.

### **9.1.3 Small or irregular treasury deposits**

The Council may from time to time be asked to accept deposits from local institutions or individuals. In these circumstances the Council will require and copy identification of the institution's contact officer or individual and the Council will take such steps that are reasonable to ensure the activities and operations of the counterparty are appropriate. The identification process and documentation will be held with the information relating to the transaction. In the event that identification is inadequate or not forthcoming the Council will not deal with that institution or individual.

### **9.1.4 Reporting and Appointment of a "Nominated Officer"**

The MLRO is nominated to receive disclosures under this regulation. The MLRO for this Council is the Head of Financial Services. Any concern of a transaction possibly being linked to either money laundering or the proceeds of crime must be referred to the MLRO for consideration and if the concerns are validated the NCIS must be notified.

## **9.2 NON TREASURY MANAGEMENT PURPOSES**

### **9.2.1 Regular cash and other receipts**

The Council will in the normal operation of its services accept cash payments from individuals or organisations in relation to rents, Council tax, sundry debtors etc. However the deminimus limit of Euro15,000 applied in the regulations will mean that the requirements of the regulations do not apply to the majority of the Council's customers, unless the Council employee would have reasonable grounds to suspect money laundering activities or proceeds of crime or is simply suspicious. Where in the case of rental income, business rates etc., which are in excess of the deminimus limit the Council employee can take some confidence from the following:

- a). Receipts will normally be paid by BACS or cheques and the relevant bank will be required to comply with the money laundering regulations for their customer.
- b). These types of transactions relate to usage of a property or specific service which would not normally be ideal conduits for money laundering.
- c). Most customers will be locally known businesses.

Significant cash receipts should be properly evaluated, evidence gathered and if not supported refused. Any bank payments from unknown or overseas banks should be subject to similar scrutiny.

### **9.2.2 Occasional receipts from infrequent customers**

The main receipts accepted by the Council will be related to capital receipts from the sale of assets, although any other receipts in excess of Euro15,000 should be reviewed. In ensuring the identification procedures the Council can take confidence from the following:

- a) The legal section will deal with the sale and will identify the payee during the course of the process of sale.
- b) Receipts will normally be paid by BACS or cheques and the relevant bank will be required to comply with the money laundering regulations for their client.
- c) Customers may be longstanding tenants or known businesses.

### **9.2.3 Payments**

The majority of the payments by the Council will be via the payroll directly to bank accounts. Similarly the majority of creditor payments will be paid via BACS directly to domestic bank accounts or by crossed cheques and so the same controls will apply. In these cases the relevant bank will be required to comply with the money laundering regulations for their client's further use of the money.

### **9.2.4 Cash payments**

Cash payments made by the Council are undertaken through authorised petty cash floats. The amounts do not exceed the thresholds for money laundering purposes.

### **9.2.5 Refunds**

Where a significant overpayment arises which results in a repayment, this will be properly investigated and authorised before payment.

**In the event of any suspicious transactions the MLRO should be contacted for investigation.**

## TMP 10 STAFF TRAINING AND QUALIFICATIONS

### **PRINCIPLES:**

“This Council recognizes 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 Director of Resources will recommend and implement the necessary arrangements. The present arrangements are detailed in the schedule to this document.”

### **SCHEDULES:**

- 10.1** Details of staff training needs will be identified as part of the training needs analysis undertaken during annual Employee Development Interviews.
- 10.2** Treasury Management seminars will be attended as appropriate.
- 10.3** The Director of Resources is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

## TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

### PRINCIPLES:

“This Council recognizes the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to a 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 a formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Resources, and details of the current arrangements are set out in the schedule to this document.”

### SCHEDULES:

#### **11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS**

##### **11.1.1 Banking services**

- a) Name of supplier of service is the Co-operative Bank plc. The branch address is:  
29 Hight Street  
Durham  
DH1 3PL
- b) Contract commenced 1<sup>st</sup> April 2002 and runs for 5 years until 31<sup>st</sup> March 2007
- c) Cost of service is variable depending on schedule of tariffs and volumes
- d) Payments are paid quarterly in arrears

##### **11.1.2 Money-broking services**

Name of suppliers of service:

- a) Martin Brokers (UK) plc
- b) Tradition (UK) Ltd
- c) No commission is paid by the Council to any money broker

##### **11.1.3 Consultants/advisers services**

- a) Treasury Consultancy Services
  - i) Name of supplier of service is Butlers Limited. Their address is:  
Broadgate  
London  
EC2M 7UR  
Tel: 020 7000 5900
  - ii) Contract commenced the 14<sup>th</sup> February 2002 and runs for 5 years to the 13<sup>th</sup> February 2007.

d) Leasing Consultancy Services.

- i) Name of the supplier of the service is Chrystal Consultancy Services. Their address is:

191C Moss Lane  
Bramhall  
Stockport  
Cheshire  
SK7 1BA

- ii) Contract commenced 1<sup>st</sup> April 2005 for a one year period.  
iii) The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

- e) External Fund Managers  
None at present.

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

## **11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES**

Refer to TMP 2 *Best Value and Performance Management* for details regarding frequency and tendering processes in relation to treasury management activities.

## **TMP 12 CORPORATE GOVERNANCE**

### **PRINCIPLES:**

“This 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.

This Council has adopted and has implemented the key recommendations 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 will monitor and, if and when necessary, report upon the effectiveness of these arrangements.”

### **SCHEDULES:**

#### **12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

**Annual Statement of Accounts**  
**Annual Revenue and Capital Budgets**  
**Medium Term Financial Plan**  
**Treasury Management Policy**  
**Treasury Management Strategy**  
**Annual Review of Treasury Management**