

# Unrestricted Document Pack

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Tel. 01621 875745

Council Chamber 01621 859677

HEAD OF PAID SERVICE'S OFFICE  
HEAD OF PAID SERVICE  
Richard Holmes

31 December 2018

Dear Councillor

You are summoned to attend the meeting of the;

## **OVERVIEW AND SCRUTINY COMMITTEE**

on **WEDNESDAY 9 JANUARY 2019** at **7.30 pm.**

in the Council Chamber. Maldon District Council Offices, Princes Road, Maldon.

A copy of the agenda is attached.

Yours faithfully



Head of Paid Service

COMMITTEE MEMBERSHIP

CHAIRMAN

Councillor M W Helm

VICE-CHAIRMAN

Councillor R P F Dewick

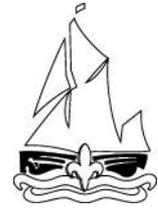
COUNCILLORS

I E Dobson  
P G L Elliott  
M S Heard  
N R Pudney  
S J Savage  
Miss S White

Please note: Limited hard copies of this agenda and its related papers will be available at the meeting.  
Electronic copies are available via the Council's website [www.maldon.gov.uk](http://www.maldon.gov.uk).

## **Maldon District Council's Corporate Goals**

- Strengthening communities to be safe, active and healthy;
- Protecting and shaping the District;
- Creating opportunities for economic growth and prosperity;
- Delivering good quality, cost effective and valued services;
- Focusing on key projects.



**AGENDA**  
**OVERVIEW AND SCRUTINY COMMITTEE**  
**WEDNESDAY 9 JANUARY 2019**

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1. **Chairman's notices (please see overleaf)**
2. **Apologies for Absence**
3. **Minutes of the last meeting** (Pages 5 - 10)

To confirm the Minutes of the meeting of the Overview and Scrutiny Committee held on 21 November 2018 (copy enclosed).

4. **Public Participation**

To receive the views of members of the public on items of business to be considered by the Committee (please see below):

1. A period of ten minutes will be set aside.
2. An individual may speak for no more than two minutes on a specific agenda item, the time slots to be allocated on a “first come first served” basis.
3. Participation may take the form of a statement, or alternatively a question to be addressed to the Chairman. There will be no discussion on questions put unless it is formally moved. In line with the current scheme applied to other Committees, the questions must:
  - not be defamatory, frivolous, vexatious or offensive;
  - not be the same or substantially the same as another question to the same meeting or anything so put in the last six months;
  - not involve the disclosure of confidential or exempt information.
4. Anyone wishing to speak must notify the Committee Clerk between 7.00pm and 7.20pm prior to the start of the meeting.

5. **Disclosure of Interest**

To disclose the existence and nature of any Disclosable Pecuniary Interests, other Pecuniary Interests or Non-Pecuniary Interests relating to items of business on the agenda having regard to paragraphs 6-8 inclusive of the Code of Conduct for Members.

(Members are reminded that they are also required to disclose any such interests as soon as they become aware should the need arise throughout the meeting).

6. **DWP Service Delivery / Jobcentre Plus**

To receive the presentation from the Jobcentre Plus and discuss with regard to the following topics as set out in the agreed work programme:

- the benefits to the service users of relocating;
- numbers accessing the service;
- plans to provide a service to Burnham;
- confirmation of ages being seen;
- impact of Universal Credit.

7. **2018 / 19 Programme of Work Update** (Pages 11 - 18)

To consider the report of the Director of Resources.

8. **Treasury Management, Investment and Capital Strategies for 2019/20** (Pages 19 - 68)

To consider the report of the Director of Resources.

9. **Any other items of scrutiny Members wish to consider**

10. **Any other items of business that the Chairman of the Committee decides are urgent**

**NOTICES**

**Sound Recording of Meeting**

Please note that the Council will be recording any part of this meeting held in open session for subsequent publication on the Council's website. At the start of the meeting an announcement will be made about the sound recording. Members of the public attending the meeting with a view to speaking are deemed to be giving permission to be included in the recording.

**Fire**

In event of a fire, a siren will sound. Please use the fire exits marked with the green running man. The fire assembly point is outside the main entrance to the Council Offices. Please gather there and await further instruction.

**Health and Safety**

Please be advised of the different levels of flooring within the Council Chamber. There are steps behind the main horseshoe as well as to the side of the room.

**Closed-Circuit Television (CCTV)**

This meeting is being monitored and recorded by CCTV.



**MINUTES of  
OVERVIEW AND SCRUTINY COMMITTEE  
21 NOVEMBER 2018**

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**PRESENT**

Chairman	Councillor M W Helm
Vice-Chairman	Councillor R P F Dewick
Councillors	I E Dobson, P G L Elliott, M S Heard, N R Pudney and S J Savage

**632. CHAIRMAN'S NOTICES**

The Chairman drew attention to the list of notices published on the back of the agenda.

**633. APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor Miss S White.

**634. PUBLIC PARTICIPATION**

There was none.

**635. MINUTES OF THE LAST MEETING**

**RESOLVED** that the Minutes from a meeting of the Committee held on 3 October 2018 be approved and confirmed.

**636. DISCLOSURE OF INTEREST**

There were none.

**637. REVIEW OF PERFORMANCE - QUARTER TWO 2018 / 19**

The Committee received the report of the Director of Resources confirming the Committee's Work Programme for 2018 / 19, attached as Appendix 1 to the report. It was confirmed that the information provided in Appendix 1 was correct as at 30 September 2018.

Councillor M S Heard disclosed a non-pecuniary interest in this agenda item, namely the tracking measure Level of Reported Crime, as an employee of Essex Police.

- Levels of Reported Crime - Members expressed concern at the increase in the levels of reported crime, and requested that this be brought to the attention of the Police, Fire and Crime Commissioner.

The Director of Service Delivery confirmed that the Chief Inspector would be present at the Overview and Scrutiny Committee (meeting as the Crime and Disorder Committee) on 29 November 2018.

Members stated that they felt despondent toward the Police, Fire and Crime Commissioner as they would welcome the opportunity to comment on policies and the spending of funding. It was considered inappropriate to raise these queries with the Chief Inspector.

Members suggested that a letter was sent to the Police, Fire and Crime Commissioner expressing concern over non-attendance at a meeting of the Committee. Furthermore, they requested that a copy be sent to the Home Office Select Committee.

The Director of Service Delivery informed the Committee that an invitation had been sent and that the Police, Fire and Crime Commissioner, had suggested a briefing with Members was organised in place of a formal meeting. However confirming a suitable date was proving difficult.

- North Heybridge Garden Suburb - The Director of Strategy, Performance and Governance confirmed that although this was showing as Amber, Maldon District continued to have a five year housing supply and a report on this had been circulated to Members in early November 2018. Members were advised that the figures included a 20% contingency.
- North Heybridge Flood Alleviation Scheme - In response to questions from Members the Director of Strategy, Performance and Governance advised that the scheme was initially hard to deliver as developments were separate to the Local Development Plan (LDP).

The final report from Essex County Council, as the Flood Authority, was still outstanding. If the report confirmed that necessary requirements were met development could go ahead without the need for a Flood Alleviation Scheme. Alternative options were also being considered to resolve underlying issues as a result of the Countryside development.

- Household Waste Sent For Refuse and Recycling - The Committee was advised that figures for refuse were provisional and cumulative. Low figures for Quarter 2 came from a reduction in green waste, this was due to a dry summer.

Members were informed that sacks containing recyclable materials could be refused when containing mixed materials as the potential contamination of recycling would result in the batch being lost. This had been in the contract since commencement.

It was acknowledged that SUEZ attendance at a previous meeting of the Committee was informative.

- Processing of Housing Benefit and Council Tax Support Claims - Following previous concerns raised by Members the Director of Service Deliver advised that the backlog in the processing of Benefit Claims was a result of staff sickness and vacancies at the start of the year. The following update was provided on average processing times:
  - Benefit Claims received in June 2018 were processed in 42 days. In October 2018 this figure had reduced to 19.04 days.
  - In June 2018, Change in Circumstance were processed within 18.75 days. In October 2018 this figure had reduced to 9.54 days.

Members raised concern on the commencement of Universal Credit (UC) within the District and the impact this would have on residents. The Director of Service Delivery confirmed that implementation of UC within the district was expected to start at the end of 2018. This had since been revised and Members will be advised of the date in due course.

- Planning Applications - Members reported that some constituents felt Planning Officers were reluctant to converse with applicants. The Director of Strategy, Performance and Governance requested that these complaints be forwarded for further investigation.

The Director of Strategy, Performance and Governance provided the following information in response to Members questions:

- There were no vacancies within the Planning Department therefore missed deadlines were as a result of the process, not the resource.
- As part of the Future Model there would be a 13% reduction of staff across the Council, the planning department would be included in these reductions.
- The rate of winning appeals has gone up.
- The number of applications acknowledged outside of the five working days target was improving.

The Director of Strategy, Performance and Governance welcomed Members suggestion that a crib sheet be developed to help guide applicants through the process.

- Staff Sickness - In response to Members questions the Director of Resources confirmed the number of days absent per full time equivalent (FTE) was currently at 3.64 days. This was below the target of 8 days.

## **RESOLVED**

- (i) that the contents of the report be noted.
- (ii) that the actions detailed above be actioned.

## 638. 2018 / 19 PROGRAMME OF WORK

The Director of Resources presented the Committee with the 2018 / 19 Programme of Work, which provided Members with an update of the agreed scrutiny topics as shown at Appendix 1 of the report.

- Provision of Healthcare Services – The Director of Resources advised that the CCG were invited to the January 2019 meeting of the Committee.

Councillor N R Pudney provided an update from his latest meeting with the Health Overview and Scrutiny Committee (HOSC) which included the following information:

- Across Essex, there is a shortfall of approximately 1400 General Practitioners (GPs). HOSC is working to resolve this.
  - The amalgamation of Braintree, Chelmsford and Southend Hospitals has been delayed.
  - Southend Hospital may lose their stroke unit.
  - The next HOSC meeting is scheduled for December 2018.
- Section 106 Update - an update will come back to this Committee at the 10 April 2019 meeting.
  - Internal and External Communication – this has been incorporated into the Monitoring of the Organisational Change Programme.
  - Monitoring of the Organisational Change Programme - In response to questions, the following information was confirmed:
    - Members signed off the Council restructure as part of the Future Model at Council on 9 August 2018 (minute 339 - Business Case: Full Council Transformation);
    - Phase One is due to be implemented by February 2019;
    - Phase Two is due to be implemented October 2019;
    - Members are included in the staff updates on the Future Model progress;
    - As part of the Future Model, Windows 10 will be rolled out to all staff and Members.
  - Review of Fire and Rescue Service provision in the Dengie – The Director of Service Delivery acknowledged Members frustration and confirmed that Officers were in the process of organising a briefing for Members with the Police, Fire and Crime Commissioner outside of this committee.
  - Dealing with Waste Water - The Director of Resources confirmed that a meeting with Anglian Water had been arranged and a report would be provided to a future meeting of this Committee.
  - Provision of Tourist Information Centres in the District - The Committee was informed that a meeting on Tourist Information Centres had been included in the scope of the Future Model review. Suggestions from Members were included as options for consideration in the service review.

- Jobcentre Plus – Representatives from the Jobcentre Plus will be attending the 9 January 2019 meeting.
- Waste Contract – Reliability of the Contractor Vehicles - The Director of Resources suggested the removal of this item from the Programme of Work following helpful discussions with SUEZ. Members requested that this item remained on the Programme of Work to allow for monitoring.
- Provision of a Crematorium within the District - The Committee requested this was added to the Programme of Work as an item of interest and requested updates on the business case.

**RESOLVED**

- (i) that the contents of the report be noted.
- (ii) that the actions detailed above be actioned.

**639. ANY OTHER ITEMS OF SCRUTINY MEMBERS WISH TO CONSIDER**

There were none.

**640. EXCLUSION OF THE PUBLIC AND PRESS**

**RESOLVED** that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following item(s) of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act, and that this satisfies the public interest test.

**641. OFFICE ACCOMMODATION AND LEASE UPDATE**

The Committee received the report from the Director of Resources which provided a detailed list of all leases and tenants with ongoing arrangements as found at Appendix 1 of the report.

Members discussed the content of the report and asked further questions which the Director of Resources duly answered.

**RESOLVED**

- (i) that the content of this report be noted.

There being no further items of business the Chairman closed the meeting at 8.50 pm.

M W HELM  
CHAIRMAN

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## **REPORT of DIRECTOR OF RESOURCES**

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**to  
OVERVIEW AND SCRUTINY COMMITTEE  
9 JANUARY 2019**

### **2018 / 19 PROGRAMME OF WORK UPDATE**

#### **1. PURPOSE OF THE REPORT**

- 1.1 The purpose of this paper is to provide an update on the work programme of this Committee for 2018 / 19.

#### **2. RECOMMENDATION**

That the contents of this report be noted.

#### **3. SUMMARY OF KEY ISSUES**

- 3.1 This report is for Members' information only.
- 3.2 The Committee has previously considered and agreed a programme of work for 2018/19; other issues have been added subsequently. **APPENDIX 1** provides an update on each of the agreed scrutiny topics.
- 3.3 Attached at **APPENDIX 2** is a copy of the letter sent to the Home Affairs Committee and references the invitation of the Police, Fire and Crime Commissioner to a meeting of this Committee.

#### **4. CONCLUSION**

- 4.1 The work programme for 2018 / 19 are progressing.

#### **5. IMPACT ON CORPORATE GOALS**

- 5.1 The work of the Overview and Scrutiny Committee supports the Corporate Goal of: "Delivering good quality, cost effective and valued services".

## 6. IMPLICATIONS

- (i) **Impact on Customers** – Scrutiny work may aid in improvements to service to the public by the Council and external authorities.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – Recommendations arising from scrutiny could assist in mitigating corporate risks.
- (iv) **Impact on Resources (financial)** – Officer time in preparing the reports and supporting information.
- (v) **Impact on Resources (human)** – None identified.
- (vi) **Impact on the Environment** – None identified.

Background papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762).

## Overview and Scrutiny Committee

## 2018 / 19 Programme of Work

Scrutiny topic	Member Sponsor	Lead Officer	Scope of Scrutiny
<b>Provision of Healthcare Services including the recruitment and retention of GPs</b>	Councillor N R Pudney	Director of Service Delivery	<p><u>Primary Care Provision</u> The Clinical Commissioning Group (CCG) recently updated on progress in primary care provision in the Maldon District.</p> <p>Plans are progressing well for a new primary care facility in Southminster and the Blackwater Surgery in Maldon is wedded to relocation into the new integrated health hub, the strategic outline case for which is due for submission in the Autumn. Assurances have been given that the North Heybridge development will include a new primary care facility.</p> <p><u>GP Recruitment</u> There is a national agenda supporting the expansion of the primary care workforce and approaches to increasing capacity through streamlining clinical systems. Virtually all of our surgeries now have their books open and some have benefited from funding to support the investment required to develop their resilience.</p> <p>Representatives from the CCG and practices have offered to attend the Committee, or a separate meeting outside of the Committee to provide an update on this agenda. <b>An invite has been extended to attend a future meeting of this Committee.</b></p>
<b>Section 106</b>	Councillor I E Dobson	Director of Strategy, Performance and Governance	<p>It was agreed that the Committee would receive an update on Section 106 Agreements on a six monthly basis.</p> <p>A detailed report was submitted to the Committee for its October 2018 meeting.</p> <p>An update report will be provided in six months. <b>(April 2019).</b></p>

Scrutiny topic	Member Sponsor	Lead Officer	Scope of Scrutiny
<b>Internal and External Communication</b>	Councillor S J Savage  Councillor M S Heard	Corporate Leadership Team	<p>The Committee requested a review of the Council’s approach to internal and external communications to include:</p> <ul style="list-style-type: none"> <li>• the email system;</li> <li>• telephone communication via the Council’s contact centre;</li> <li>• how the Council can improve the website;</li> <li>• some examples of other authorities’ approach to communication;</li> <li>• the Council’s Digital strategy.</li> </ul> <p>A presentation was provided to the February 2018 meeting and a further report received by the Committee in March 2018.</p> <p>Staff have been reminded of the Council’s standards regarding timescales for responding to customer communications through team meetings.</p> <p>The Monitoring Officer and Councillors Savage and Heard met to discuss email communication.</p> <p>Issues raised within this area of scrutiny are within the scope of the Future Model (FM) and significant investment is included within the project.</p> <p>It is not proposed to progress this area of scrutiny because the issues raised will be dealt with within the FM. Members have also agreed to monitor the FM throughout the delivery phase which will give an opportunity for scrutiny if required.</p>
<b>Monitoring of the Organisational Change Programme</b>	Councillor P G L Elliott  Councillor R P F Dewick	Director of Resources	<p>Following the decision by Council on 7<sup>th</sup> June to progress with Ignite’s Future Council model, the Committee will monitor the implementation of this organisational change programme.</p> <p>An update on the implementation was provided to the Committee for its October 2018 meeting when it was agreed that Members will receive regular updates on the progress of the Council Transformation and that minutes of the Transformation Board will be available through Modern.Gov.</p>

Scrutiny topic	Member Sponsor	Lead Officer	Scope of Scrutiny
<p><b>Review of Fire and Rescue Service provision in the Dengie</b></p>	<p>Councillor P G L Elliott</p>	<p>Director of Service Delivery</p>	<p>Concern was raised that the Fire Authority was looking into closing fire stations within the Maldon District, i.e. Tillingham and Burnham-on-Crouch. It was noted that were this to happen the closest Fire Service to the Dengie would be located at South Woodham Ferrers.</p> <p>A scoping meeting took place between Officers and Members on Friday 31<sup>st</sup> August 2018.</p> <p>Mr Holmes is speaking to Essex Fire and Rescue and requesting the Chief Fire Officer to attend a future meeting of the Committee.</p> <p>A public meeting with the Essex Police, Fire and Crime Commissioner is taking place on 8<sup>th</sup> January to which Members are invited. A private briefing for Members will also take place on 7<sup>th</sup> February 2019.</p>
<p><b>Dealing with Waste Water</b></p>	<p>Councillor Miss S White</p>	<p>Director of Strategy, Performance and Governance</p>	<p>The Committee raised concerns over the use of an experimental pumping system for foul water removal at new developments within the district, the lack of capacity at pumping stations, and the liability for any failure of foul water drainage which may occur.</p> <p>Members discussed the responsibility of foul water removal at new developments within the District and voiced frustration over conflicting reports from Anglian Water Authority (AWA). It was requested that Anglian Water attend a future meeting of the Committee and provide a report on the removal of foul water.</p> <p>Following on from the Committee’s request, a meeting was held with Cllr. Miss S White which identified two issues and two work streams.</p> <ol style="list-style-type: none"> <li>1. The first is the consistency between Anglian Water Authority’s consultation responses to planning applications and comments that have been made in meetings about capacity constraints; and</li> <li>2. the wider issue of the long term adequacy of the sewerage and surface water drainage systems (combined in many areas) to cope with growth and storms.</li> </ol> <p>Officers have actioned the above matters as follows: The principle of a position statement has been requested from Anglian Water and officers are awaiting confirmation that this approach is feasible. The scope of such a statement will be agreed directly this is confirmed.</p> <p>A separate meeting has taken place with Essex County Council with regards to working in partnership to develop a district wide Water Cycle Study as a future project. In 2010 the Council commissioned a Scoping Water Cycle Study for Maldon Town &amp; Heybridge only. Any future Study will extend the area across the whole district and will be aimed at a strategic approach to the management of all water streams alongside any proposed growth for the Maldon district.</p>

Scrutiny topic	Member Sponsor	Lead Officer	Scope of Scrutiny
<b>Office accommodation and leases within the Maldon DC Offices</b>	Councillor S J Savage	Director of Resources	<p>It was requested that following the recent report, leases held by external companies working from the Council offices would be looked at and reported back to a future meeting of the Committee. It was noted that this would include previous lease holders, Moat Housing, and organisations that use the facilities for meetings.</p> <p>A report was provided to the November meeting and an email update has been sent to Committee Members.</p>
<b>Jobcentre Plus</b>	Councillor M S Heard	Director of Resources	<p>Members were pleased to see the Jobcentre Plus had located to the Council Offices and requested confirmation on their success at the site. Members asked whether they were still only accepting appointments for claimants aged twenty five and under, and whether there was any plans to extend this to Burnham as an Outreach Project.</p> <p>The scope of this scrutiny topic to include:</p> <ul style="list-style-type: none"> <li>• The benefits to the service users of relocating;</li> <li>• numbers accessing the service;</li> <li>• plans to provide a service to Burnham;</li> <li>• confirmation of ages being seen;</li> <li>• impact of Universal Credit.</li> </ul> <p>See the presentation from the Jobcentre Plus at this meeting.</p>
<b>Waste Contract – reliability of the contractor vehicles</b>	Councillor R P F Dewick Councillor M S Heard	Director of Service Delivery	<p>In response to questions raised, Members were advised that the waste contractor was being scrutinised following issues surrounding the reliability of vehicles and the impact on the delivery of service.</p> <p>Members were also seeking clarification/confirmation of where the District’s recycling is sent to following processing.</p> <p>A detailed report was provided to the Committee for its October meeting which updated Members on the collection of waste within the District and addressed concerns surrounding contractor vehicles and the end destination of recycling. The Recycling and Recovery UK Regional Manager from Suez also attended the meeting.</p> <p>Following discussions at the meeting, the content of the report and actions being undertaken were noted. No further action on this scrutiny topic is required, although a watching brief will be maintained on performance.</p>

14 December 2018

By email:  
homeaffcom@parliament.uk  
Elizabeth Hunt, Clerk to  
Home Affairs Committee  
House of Commons  
London  
SW1A 0AA

Enquiries to Richard Holmes  
Email: Richard.holmes@maldon.gov.uk

Dear Ms Hunt

**Maldon District Council – Crime and Disorder Committee**

I am writing to you on behalf of Cllr Michael Helm, Chairman of the Maldon District Council Crime and Disorder Committee regarding the Police Fire & Crime Commissioner Roger Hurst and would ask that you bring this letter to the attention of Yvette Cooper, MP as Chair of the Home Affairs Committee.

Members of the Crime and Disorder committee meet twice a year to review the activities of the Community Safety Partnership (Partnership). The meetings are attended by the Police and by invite other members of the partnership depending upon the area of scrutiny.

Earlier this year Officers were directed to invite Roger Hurst to the meeting of the Crime and Disorder Committee to answer questions from Members relating to Policing matters in the Maldon District. Mr Hurst was asked specifically because many of the Members concerns relate to funding and resources which fall outside the control of the Local Chief Inspector.

Mr Hurst has declined the invitation on a number of occasions. Rather he has offered a briefing for members outside of the Committee setting on the basis the Crime and Disorder Committee does not have the remit to scrutinise his activities. Members strongly believe local policing resources are intrinsically linked to the activities of the PFCC through both funding allocation and strategy and Mr Hurst should attend the meeting for Members to discuss their concerns relating to crime in our rural communities.

The purpose of this letter is for you to note the strong feelings of Members of Maldon District Council in that Mr Hurst has been uncooperative with this Authority and ask you to intervene in this matter. Members wish to ensure that the Crime and Disorder committee is able to fully undertake their duties in reviewing the activities of the Community Safety Partnership through a meeting with Mr Hurst and your assistance will be most welcome.

As a footnote to this letter Mr Hurst has recently agreed to attend a private briefing with Members in February in addition to a public meeting. Whilst this is welcome Members would prefer to meet the PFCC sitting as the Crime and Disorder Committee as outlined above.

Yours sincerely

Richard Holmes  
Director of Service Delivery  
& Interim Head of Paid Service

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## **REPORT of DIRECTOR OF RESOURCES**

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to  
**OVERVIEW AND SCRUTINY COMMITTEE  
9 JANUARY 2019**

### **TREASURY MANAGEMENT STRATEGY 2019/20.**

#### **1. PURPOSE OF THE REPORT**

- 1.1 The Code of Practice for Treasury Management includes a requirement for regular scrutiny of Treasury Strategy and Practices. Members are therefore asked to review the Treasury Management Strategy for 2019 / 20.

#### **2. RECOMMENDATIONS**

- 2.1 For members to scrutinise and note the contents of the report.

#### **3. SUMMARY OF KEY ISSUES**

- 3.1 This report is for Members information only.
- 3.2 The Prudential Code was updated in 2017 with a requirement for a new Capital Strategy that has impacted on the content of the Treasury Management Strategy. Following this new requirement, the Treasury Management Strategy has been reviewed and is **APPENDIX ONE** and the supporting Treasury Management Practices are attached as **APPENDIX TWO**.
- 3.3 The strategies are due to be considered by the Finance and Corporate Services Committee on 29 January 2019.
- 3.4 The Strategy has been compiled using a template provided by the Council's Treasury advisor, Arlingclose Ltd with outlooks at the time the strategy was drafted in December 2018.

#### **4. CONCLUSION**

- 4.1 The Treasury Management Strategy has been updated in line with statutory requirements and good practice, having regard to the Council's financial position, links to wider strategies, plans and aims and the advice of the Council's external treasury advisor.

## 5. IMPACT ON CORPORATE GOALS

- 5.1 This Strategy supports the Corporate Goal of “Delivering good quality, cost effective and valued services”.

## 6. IMPLICATIONS

- (i) **Impact on Customers** – None.
- (ii) **Impact on Equalities** – None.
- (iii) **Impact on Risk** – The Council are looking to become more Commercial which then entails greater risk, however all new investment decisions will be entered into with suitable due diligence to ensure that any risk is mitigated.
- (iv) **Impact on Resources (financial)** – Investment interest received is a financial resource available to support spending on service provision.
- (v) **Impact on Resources (human)** – None directly.
- (vi) **Impact on the Environment** – None.

Background papers: Draft Capital Strategy 2019/20 and Draft Investment Strategy 2019/20  
Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762)

## Treasury Management Strategy Statement 2019/20

### Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held are considered in the Investment Strategy.

### External Context

**Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

**Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

**Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.6%. Any new borrowing will be built into the budget at the relevant rate. For the purpose of project costing, the PWLB certainty rate for the borrowing term will be used.

### Local Context

On 6 December 2018, the Council had zero borrowing and £22m of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	1,109	850	6,874	6,489	6,104
Less: Usable reserves	-10,400	-6,600	-6,200	-4,500	-4,000
Less: Working capital	-3,500	-3,500	-3,500	-3,500	-3,500
<b>Investments (or New borrowing)</b>	<b>12,800</b>	<b>9,200</b>	<b>2,800</b>	<b>1,500</b>	<b>1,400</b>

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, however in order to progress Commercial Projects in the Medium Term, it is envisaged that External Borrowing will be required.

The Council is currently debt free, however its capital expenditure plans imply a need to borrow over the forecast period. Investments are forecast to fall to £7.9m as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget. This will need to be maintained at £10m, and therefore as the Capital Financing Requirement reflects a need to borrow, the Council will need to start looking to take out borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2019/20.

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
CFR	1,109	850	6,874	6,489	6,104
Less: Usable reserves	-10,400	-6,600	-6,200	-4,500	-4,000
Less: Working capital	-3,500	-3,500	-3,500	-3,500	-3,500
Plus: Minimum investments	10,000	10,000	10,000	10,000	10,000
<b>Liability Benchmark</b>	<b>-2,800</b>	<b>800</b>	<b>7,200</b>	<b>8,500</b>	<b>8,600</b>

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £6.3m in 2019/20, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all increasing by inflation of 3% a year.

### **Borrowing Strategy**

The Council is currently debt free but its capital expenditure plans indicate the need to borrow over the forecast period. The balance sheet forecast in table 1 includes proposals that the Council are investigating that would require borrowing up to £6.3m in 2019/20. The Council may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £16.5 million.

**Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans.

By doing so, the Council will be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

**Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Local Government Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council would traditionally look to raise its long-term borrowing from the PWLB but it will investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates.

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

**Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

### **Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £11.5m and £22 million. Levels are expected to decrease in the forthcoming year as reserves are used to fund transformation.

**Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The

Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Negative interest rates:** If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will look to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the funds available for longer-term investment. The majority of the Council's surplus cash remains invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the new strategy adopted in 2017.

**Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£2m 2 years	£2m 3 years	£1m 5 years	£1m 3 years	£1m 5 years
A	£2m 13 months	£2m 2 years	£1m 5 years	£1m 2 years	£1m 5 years
A-	£2m 6 months	£2m 13 months	£1m 5 years	£1m 13 months	£1m 5 years
None	£1m 6 months	n/a	£1m 25 years	£2m 5 years	£1m 5 years
<b>Money Market and other pooled funds</b>		£5m per fund			

This table must be read in conjunction with the notes below

**Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However,

investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following suitable due diligence by the Section 151 officer.

**Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The Council currently have no such investments.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £2.7 million on 31<sup>st</sup> March 2019. In order that available reserves will not significantly be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £2 million. However, as balances reduce, the practical investment in these organisations will be lower than the maximum, and balances will be split across a number of organisations. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

The limits in Table 3 and Table 4 are the maximum in any one institution and may be higher than the total balances held. Balances will always be split across a number of organisations in order to reduce the risk of default.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Registered providers and registered social landlords	£2m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£2m in total
Money market funds	£12m in total

**Liquidity management:** The Council uses in house cash flow forecasting methods to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

#### Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit score	6

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£5m

**Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£53,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-£54,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
<b>10 years and above</b>	<b>100%</b>	<b>0%</b>

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£8m	£7.5m	£7.5 m

### Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

**Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

**Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Resources believes this to be the most appropriate status.

### Financial Implications

The budget for investment income in 2019/20 is £166,000, based on an average investment portfolio of £10.35 million at an interest rate of 1.6%. The budget for debt interest paid in 2019/20 is currently

zero as there is not a confirmed timeline for any borrowing requirement. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

### **Other Options Considered**

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

**Appendix A - Arlingclose Economic & Interest Rate Forecast December 2018****Underlying assumptions:**

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening - previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

**Forecast:**

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.13</b>								
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
<b>3-mth money market rate</b>														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
<b>Arlingclose Central Case</b>	<b>0.90</b>	<b>0.95</b>	<b>1.10</b>	<b>1.30</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.27</b>
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
<b>1-yr money market rate</b>														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
<b>Arlingclose Central Case</b>	<b>1.15</b>	<b>1.25</b>	<b>1.35</b>	<b>1.50</b>	<b>1.70</b>	<b>1.60</b>	<b>1.50</b>	<b>1.40</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.40</b>
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
<b>Arlingclose Central Case</b>	<b>1.15</b>	<b>1.25</b>	<b>1.35</b>	<b>1.50</b>	<b>1.50</b>	<b>1.40</b>	<b>1.35</b>	<b>1.35</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.33</b>
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
<b>10-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
<b>Arlingclose Central Case</b>	<b>1.50</b>	<b>1.65</b>	<b>1.70</b>	<b>1.80</b>	<b>1.80</b>	<b>1.75</b>	<b>1.75</b>	<b>1.70</b>						
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
<b>Arlingclose Central Case</b>	<b>2.00</b>	<b>2.10</b>	<b>2.20</b>	<b>2.18</b>										
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
<b>Arlingclose Central Case</b>	<b>1.90</b>	<b>1.95</b>	<b>2.00</b>	<b>1.99</b>										
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

## Appendix B - Existing Investment &amp; Debt Portfolio Position

	7 Dec 2018 Actual Portfolio £m	7 Dec 2018 Average Rate %
<b>Total external borrowing</b>	0	
<b>Total gross external debt</b>	0	
<b>Treasury investments:</b>		
Banks	2	0.8
Building societies (unsecured)	2	0.82
Certificates of Deposit	4	0.77
Money Market Funds	9	0.67
Property Fund	3	4.19
Other pooled funds	2	4.18
<b>Total treasury investments</b>	22	

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## **TREASURY MANAGEMENT PRACTICES**

### **PRINCIPLES AND SCHEDULES**

#### **Introduction:**

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in November 2017. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2017 Code. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

## TMP 1: RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Director of Resources 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 as schedules below.

- 1) **Credit and Counterparty Risk Management:** the risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

***Principle:** The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. 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.*

### Schedule:

<p>Criteria to be used for creating/managing approved counterparty lists/limits</p>	<p>The Director of Resources is responsible for setting a prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by Finance and Corporate Services Committee.</p> <p>The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support which now includes resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.</p> <p>The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.</p> <p>Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)</p> <ul style="list-style-type: none"> <li>- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.</li> </ul>
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<p>Approved methodology for changing limits and adding/removing counterparties</p> <p>Risk management :</p> <p>(a) creditworthiness deteriorates below the minimum criteria</p> <p>(b) ratings are placed on review for downgrade</p>	<p>The Director of Resources has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.</p> <p>Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then</p> <ul style="list-style-type: none"> <li>- No new investments will be made,</li> <li>- Any existing investments that can be recalled or sold at no cost will be, and</li> <li>- Full consideration will be given to the recall or sale of other existing investments with the affected counterparty.</li> </ul> <p>Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on [the next working day] will be made with that organisation until the rating review has been completed and its outcome known.</p> <p>The policy in (b) will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.</p>
<p>Counterparty list and limits</p>	<p>A full individual listing of banking counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis.</p> <p>It may be impractical to have a pre-determined list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.</p> <p>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.</p>
<p>Details of credit rating agencies' services and their application</p>	<p>The Council considers the ratings of all 3 ratings agencies (Standard &amp; Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.</p>
<p>Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment</p>	<p>The Council's Treasury Advisor provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.</p> <p>The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.</p> <p>In addition, the Director of Resources reads quality financial press for information on counterparties.</p>

- 2) **Liquidity Risk Management:** 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.

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

*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.*

**Schedule:**

Cash flow and cash Balances	<p>The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain an annual cash flow forecast.</p> <p>The Senior Accountant shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned by investing surplus funds.</p>
Short term investments	<p>The Council uses various Current and Call Accounts and Money Market Funds to manage its liquidity requirements. These Accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.</p>
Temporary Borrowing	<p>Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.</p> <p>At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.</p>
Bank Overdraft and standby facilities	<p>The Council has no authorised overdraft limit with its bankers.</p>

- 3) **Interest Rate Risk Management:** The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

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

**Schedule:**

Minimum/ maximum proportions of fixed/variable rate debt/interest	<p>Borrowing/investments may be at a fixed or variable rate.</p> <p>The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.</p> <p>In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.</p> <p>The Council may determine it is more cost effect in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.</p>
Managing changes to interest rate levels	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>Interest rate forecasts are provided by the Council's treasury advisors and are closely monitored by the Finance Manager. Variations from original estimates and their impact on the Council's debt and investments are notified to the Finance and Corporate Services Committee as necessary.</p> <p>For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.</p>

- 4) **Exchange Rate Risk Management:** 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.

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

**Schedule:**

Exchange rate risk management	This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.
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- 5) **Refinancing Risk Management:** The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

**Principle:** *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.*

**Schedule:**

Projected capital investment requirements	4 year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.  The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.
Debt profiling, policies and practices	Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.  Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.
Policy concerning limits on revenue consequences of capital financings	The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.

- 6) **Legal and Regulatory Risk Management:** The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

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

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

## Schedule:

References to relevant statutes and regulations	<p>The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:</p> <ul style="list-style-type: none"> <li>▪ CIPFA’s Treasury Management Code of Practice 2017 and subsequent amendments</li> <li>▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities</li> <li>▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments</li> <li>▪ CIPFA Standard of Professional Practice on Treasury Management</li> <li>▪ The Local Government Act 2003</li> <li>▪ The Local Authorities (Capital Finance and Accounting) (England ) Regulations 2003 SI 2003 No 3146, and subsequent amendments</li> <li>▪ Pensions, England and Wales - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 - SI 2009 No 3093</li> <li>▪ The CLG’s statutory Guidance on Minimum Revenue Provision (MRP)</li> <li>▪ The ODPM’s (now CLG’s) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments</li> <li>▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883</li> <li>▪ LAAP Bulletins</li> <li>▪ Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)</li> <li>▪ Accounts and Audit Regulations 2015, as amended together with CLG’s Guidance</li> <li>▪ The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets</li> <li>▪ Council’s Constitution including:- <ul style="list-style-type: none"> <li>○ Standing Order relating to Contracts</li> <li>○ Financial Regulations</li> <li>○ Scheme of Delegation</li> </ul> </li> </ul>
Procedures for evidencing the organisation’s powers/ authorities to counterparties	<p>The Council’s Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Finance and Corporate Services Committee.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>
Required information from counterparties concerning their powers/ authorities	<p>Lending shall only be made to institutions on the Council’s authorised lending list or in securities which meet the Council’s approved credit criteria.</p> <p>The Council will only undertake borrowing from approved sources such as the PWLB (and its successor body), organisations such as the European Investment Bank and from commercial banks who are on the Council’s list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing are contained in TMP 4.</p>

Statement on political risks and management of the same	Political risk is managed by: <ul style="list-style-type: none"> <li>• adoption of the CIPFA Treasury Management Code of Practice</li> <li>• adherence to Corporate Governance (<u>TMP 12 - Corporate Governance</u>)</li> </ul>
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- 7) **Fraud, Error and Corruption, and Contingency Management:** 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 and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

*Principle: 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.*

**Schedule:**

Details of systems and procedures to be followed, including Internet services	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in <b>TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.</b></p> <ol style="list-style-type: none"> <li>1. <u>Electronic Banking and Dealing</u> <p>(a) <u>Banking:</u> The Council's online banking service provided by Nat West is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows:</p> <ul style="list-style-type: none"> <li>• Financial Services</li> <li>• Audit</li> <li>• IT</li> </ul> <p>Officer access is reviewed at least 6 monthly or as necessary.</p> </li> <li>2. <u>Standard Settlement Instructions (SSI) list :</u> <ul style="list-style-type: none"> <li>• Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI's.</li> <li>• Named officers will have authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility.</li> </ul> </li> <li>3. <u>Payment Authorisation :</u> <ul style="list-style-type: none"> <li>• Payments can only be authorised by agreed signatories of the Council, the list of signatories having previously been agreed with the Council's bank.</li> <li>• Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.</li> </ul> </li> </ol>
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Verification	<p>Loans and investments will be maintained on spreadsheets</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> <p>When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee (and not those on the notice received for change of payment details) before altering payment details.</p>
Substantiation	<ol style="list-style-type: none"> <li>1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end.</li> <li>2. Working papers are retained for audit inspection.</li> <li>3. The bank reconciliation is carried out monthly from the bank statement to the financial ledger.</li> </ol>
Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See <u>TMP7 Budgeting, accounting and audit arrangements</u> .
Contingency Management	<ol style="list-style-type: none"> <li>1. All treasury spreadsheets are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT services department to restore files, if necessary.</li> <li>2. Network backups are held off site in a secure location.</li> <li>3. Temporary off-site working facility: The officers who can avail of this facility following an emergency are Finance Manager and Senior Accountant who will individually be made aware of the procedures to follow.</li> <li>4. Electronic Banking System Failure : Balance details will be obtained by phone from the Banks Corporate Service Team. Instructions for CHAPS payments will be made by Telephone or email.</li> <li>5. The Business Continuity Plan is maintained by the Finance Manager.</li> </ol>
Insurance Cover details	The Council has Crime cover. Details of the provider and cover are held by the Senior Accountant

- 8) **Market Risk Management:** This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

**Principle:** *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 principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.*

**Schedule:**

<p>Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)</p>	<p>Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.</p> <p>Pooled funds with a Constant Net asset Value (CNAV) - The Council currently uses pooled funds as per its Treasury Management Strategy and on advice from its treasury advisors.</p> <p>Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk :</p> <ul style="list-style-type: none"> <li>(a) Maximum weighted average duration of the fund;</li> <li>(b) Maximum permitted exposure to gilts/bonds;</li> <li>(c) Maximum maturity of any instrument.</li> </ul>
<p>Accounting for unrealised gains/losses</p>	<p>The method of accounting for unrealised gains or losses on the valuation of financial assets comply with Accounting Code of Practice.</p>

**TMP 2: PERFORMANCE MEASUREMENT**

*Principle: 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, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.*

**Schedule:**

Policy concerning methods for testing value for money	<p>Best value reviews will include the production of plans to review the way services are provided by</p> <ul style="list-style-type: none"> <li>▪ Challenging</li> <li>▪ Comparing performance</li> <li>▪ Consulting with other users and interested parties</li> <li>▪ Applying competition principles</li> </ul> <p>in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p>
Policy concerning methods for performance measurement	<ul style="list-style-type: none"> <li>• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.</li> <li>• Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</li> <li>• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.</li> </ul> <p>Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:</p> <ul style="list-style-type: none"> <li>(i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and</li> <li>(ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.</li> </ul> <p>In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>

<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out.</p> <p>The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Councils Treasury Management advisors compare the performance of the Councils in-house funds against all its other clients and submits the results quarterly.</p>
<p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p>	<p>Treasury management activity is reported annually against strategy and prevailing economic and market conditions. The report will include</p> <ul style="list-style-type: none"> <li>a) Total debt including average rate and maturity profile (where appropriate)</li> <li>b) The effect of new borrowing and/or maturities on the above</li> <li>c) The effect of any debt restructuring on the debt portfolio</li> <li>d) Total investments including average rate, credit and maturity profile</li> <li>e) The effect of new investments/redemptions/maturities on the above</li> <li>f) The rate of return on investments against their indices for internally and externally managed funds</li> <li>g) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)</li> <li>h) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.</li> </ul>
<p>Best value</p>	<p>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations. These require that :</p> <ul style="list-style-type: none"> <li>a) For a contract with a value below an agreed threshold, at least 1 but preferably 3 quotes and service delivery proposals are obtained</li> <li>b) For a contract with a value above an agreed threshold but below an agreed tender threshold, at least 3 written quotes and service delivery proposals are obtained</li> <li>c) For a contract above an agreed tender threshold but below the EU threshold a tender exercise in line with CIPFA best practice is performed.</li> <li>d) When placing a contract with a value in excess of the EU Threshold a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken.</li> <li>e) If necessary, the Council will also consult with other users of similar services as well as with interested parties.</li> <li>f) The Council will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery.</li> </ul>

**TMP 3: DECISION-MAKING AND ANALYSIS**

*Principle: 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 below.*

**Schedule:**

Major treasury decisions	As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either :  a) Options Appraisal to determine a funding decision b) raising a new long-term loan / long-term source of finance c) prematurely restructuring/redeeming an existing long-term loan(s) d) investing longer-term (i.e. in excess of 1 year) e) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate) f) leasing g) change in banking arrangements h) appointing/replacing a treasury advisor i) appointing/replacing a fund manager
Process	The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.
Delegated powers for treasury management	The Director of Resources has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

<p>Issues to be addressed, evaluation, authorisation</p>	<p>In exercising these powers, the Director of Resources and those to whom the treasury activity have been delegated will</p> <ul style="list-style-type: none"> <li>• have regard to the nature and extent of any associated risks to which the Council may become exposed;</li> <li>• be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;</li> <li>• be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;</li> <li>• ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;</li> <li>• be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;</li> <li>• follow best practice in implementing the treasury transaction.</li> </ul> <p>In exercising Borrowing and Funding decisions, the Director of Resources will :</p> <ul style="list-style-type: none"> <li>• evaluate economic and market factors that may influence the manner and timing of any decision to fund;</li> <li>• consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;</li> <li>• consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use;</li> <li>• consider ongoing revenue liabilities created;</li> <li>• where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years</li> <li>• consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;</li> <li>• consider ongoing revenue liabilities created.</li> </ul> <p>In exercising Investment decisions, the Director of Resources will :</p> <ul style="list-style-type: none"> <li>• Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;</li> <li>• consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;</li> <li>• consider the alternative investment products and techniques available if appropriate.</li> </ul>
<p>Processes to be followed</p>	<p>The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.</p>
<p>Evidence and records to be kept</p>	<p>The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>Records and working papers will be maintained by the Council electronically and in relevant files.</p>

**TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

*Principle: 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**.*

**Schedule:**

Approved treasury management activities	<p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> <li>▪ Managing cashflow</li> <li>▪ Capital financing</li> <li>▪ Borrowing including debt restructuring and debt repayment</li> <li>▪ Lending including redemption of investments</li> <li>▪ Banking</li> <li>▪ Leasing</li> <li>▪ Managing the underlying risk associated with the Council’s capital financing and surplus funds activities.</li> </ul> <p>The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
Approved capital financing methods and types/sources of funding	<p><u>On balance sheet</u></p> <ul style="list-style-type: none"> <li>• Public Works Loans Board (PWLB) loans and loans from its successor body</li> <li>• long term money market loans including LOBOs</li> <li>• temporary money market loans (up to 364 days).</li> <li>• bank overdraft</li> <li>• loans from bodies such as the European Investment Bank (EIB)</li> <li>• Stock issues</li> <li>• Finance Leases</li> <li>• Deferred Purchase</li> <li>• Government and EU Capital Grants</li> <li>• Lottery monies</li> <li>• Other Capital Grants and Contributions <ul style="list-style-type: none"> <li>▪ PFI</li> <li>▪ Operating and finance leases</li> <li>▪ Hire purchase</li> <li>▪ Sale and leaseback</li> </ul> </li> </ul> <p><u>Internal Resources</u></p> <ul style="list-style-type: none"> <li>• Capital Receipts</li> <li>• Revenue Balances</li> <li>• Use of Reserves</li> </ul> <p><u>Off balance sheet</u></p> <ul style="list-style-type: none"> <li>▪ Operating Leases</li> <li>▪ Structured Finance</li> </ul> <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p>

Approved investment instruments	<p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as ‘Specified’ or ‘Non Specified’ based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council’s credit criteria will also apply.</p> <p><u>Banks Unsecured</u>: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks.</p> <p><u>Banks Secured</u>: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies.</p> <p><u>Government</u>: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks.</p> <p><u>Corporates</u>: Loans, bonds and commercial paper issued by companies other than banks and registered providers</p> <p><u>Registered Providers</u>: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations</p> <p><u>Pooled Funds</u>: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. Money Market Funds that offer same-day liquidity and aim for a constant net asset value</p> <p><u>Bond, equity and Property Funds</u></p>
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## TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

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

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

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

*The Director of Resources 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 Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.*

*The Director of Resources 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 below.*

*The delegations to the Senior Accountant in respect of treasury management are set out in the schedule below. The Senior Accountant will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.*

### Schedule:

Limits to responsibilities at Executive levels	<p>Full Council</p> <ul style="list-style-type: none"> <li>• budget consideration and approval</li> </ul> <p>Finance and Corporate Services committee:</p> <ul style="list-style-type: none"> <li>• receiving and reviewing Prudential Indicators as part of the budget setting process</li> <li>• receiving and reviewing reports on treasury management policies, practices and activities</li> <li>• approval of amendments to adopted clauses, treasury management policy statement and treasury management practices</li> <li>• receiving and reviewing external audit reports and acting on recommendations</li> <li>• approving the selection of external service providers and agreeing terms of appointment</li> </ul>
Principles and practices concerning segregation of duties	<p>The segregation of duties will be determined by the Director of Resources.</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> <li>• the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments</li> <li>• all borrowing/investments decisions must be authorised by the Director of Resources.</li> </ul>

Statement of duties/ responsibilities of each treasury post	<p>Examples:</p> <p>The Director of Resources :</p> <ul style="list-style-type: none"> <li>• submitting budgets and budget variations</li> <li>• recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance</li> <li>• determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy</li> <li>• submitting regular treasury management policy reports</li> <li>• receiving and reviewing management information reports</li> <li>• reviewing the performance of the treasury management function and promoting best value reviews</li> <li>• ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function</li> <li>• recommending the appointment of external service providers</li> <li>• determining long-term capital financing and investment decisions.</li> <li>• The Director of Resources has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.</li> <li>• The Director of Resources may delegate their power to borrow and invest to members of his staff</li> </ul> <p>Head of Paid Service</p> <ul style="list-style-type: none"> <li>• ensuring the adequacy of internal audit and liaising with external audit</li> </ul> <p>Senior Accountant</p> <ul style="list-style-type: none"> <li>• execution of transactions</li> <li>• adherence to agreed policies and practices on a day to day basis</li> <li>• maintaining relationships with third parties and external service providers</li> <li>• monitoring performance on a day to day basis</li> <li>• submitting management information reports to the responsible officer</li> <li>• identifying and recommending opportunities for improved practices.</li> <li>• recording treasury management transactions,</li> <li>• reconciling treasury management transactions with the financial ledger</li> <li>• recording/reconciling counterparty documentation.</li> </ul>
Absence cover arrangements	<p>In the absence of the Director of Resources the Chief Executive will assume their responsibilities</p> <p>In the absence of the Senior Accountant the Finance Manager will provide cover.</p> <p>Cover is reviewed as necessary.</p> <p>Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.</p>

Dealing

Authorised officers	Responsible officer for borrowing/investment decisions :  Borrowing activity: <i>Senior Accountants</i>  Lending activity : <i>Senior Accountants</i>  Authorising payments for borrowing/lending : <i>Directors</i>  Transaction recording : <i>Senior Accountants</i>
Dealing limits	Internally Managed Investments: <ul style="list-style-type: none"> <li>the maximum for any one investment deal is £3 million (subject to the lending limits detailed in the Council's Annual Investment Strategy.)</li> </ul>
List of approved brokers	Brokers used by the Council are named in TMP 11 : External Service Providers
Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers may be taped by the brokers.
Direct dealing practices	Direct dealing is carried out with institutions and with external pooled funds identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty/fund has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.
Settlement transmission procedures	<ul style="list-style-type: none"> <li>settlements are made by CHAPS.</li> <li>all CHAPS payments relating to settlement transactions require authorisation by a designated officer</li> <li>all CHAPS payments require 2 bank signatures</li> <li>the details are transmitted electronically to the Council's bankers.</li> </ul>
Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.  Investments <ul style="list-style-type: none"> <li>deal ticket authorising the investment</li> <li>confirmation from the broker</li> <li>confirmation from the counterparty</li> <li>Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator</li> <li>Chaps payment transmission document</li> </ul> Loans: <ul style="list-style-type: none"> <li>deal ticket with signature to agree loan</li> <li>confirmation from the broker</li> <li>confirmation from PWLB/market counterparty</li> <li>Chaps payment transmission document for repayment of loan.</li> </ul>

**TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

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

*As a minimum, the Finance and Corporate Services Committee will receive:*

- *An annual report on the strategy and plan to be pursued in the coming year*
- *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.*
- *A mid year review of Treasury activity*

*The present arrangements and the form of these reports are outlined below.*

**Schedule:**

Frequency of executive reporting requirements	<p>The Director of Resources will annually submit budgets and will report on budget variations as appropriate.</p> <p>The Director of Resources will submit the <b>Prudential Indicators</b> and the <b>Treasury Strategy Statement, Annual Investment Strategy</b> and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Finance and Corporate Services committee before the start of the year.</p> <p>The <b>Annual Treasury Report</b> will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.</p> <p>A <b>Mid-Year Treasury Report</b> will be prepared by the Director of Resources, which will report on treasury management activities for the first part of the financial year. The Mid-Year Report will be submitted to Finance and Corporate Services during the year.</p>
Content of Reporting:	

1. Treasury Strategy Statement	<p>The Treasury Strategy will include the following:</p> <ul style="list-style-type: none"> <li>• Link to Capital Financing Prudential Indicators for the current and ensuing <u>three</u> years</li> <li>• Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt</li> <li>• the extent to which surplus funds are earmarked for short term requirements</li> <li>• the investment strategy for the forthcoming year(s) (<i>see below*</i>)</li> <li>• the minimum to be held in short term/specified investment during the coming year</li> <li>• the interest rate outlook against which the treasury activities are likely to be undertaken.</li> </ul> <p>*Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out</p> <ul style="list-style-type: none"> <li>▪ the objectives, policies and strategy for managing its investments;</li> </ul>
2. Annual Treasury Report	<p>The Director of Resources will produce an annual report for the Finance and Corporate Services Committee on all activities of the treasury management function (including the performance of fund managers) as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.</p> <p>The main contents of the report will comprise :</p> <ul style="list-style-type: none"> <li>▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the FY;</li> <li>▪ the prevailing economic environment</li> <li>▪ a commentary on treasury operations for the year, including their revenue effects;</li> <li>▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council</li> <li>▪ compliance with agreed policies/practices and statutory/regulatory requirements</li> <li>▪ performance measures.</li> </ul>
3. Content and frequency of management information reports	<p>The Director of Resources will produce a half yearly monitoring report for Finance and Corporate Services committee</p> <p><i>Example</i> : This report includes details of :</p> <ul style="list-style-type: none"> <li>• borrowing and investment activity undertaken including forward deals</li> <li>• performance of investments against benchmark</li> <li>• extent of compliance with the treasury strategy and reasons for variance (if any)</li> </ul>
4. Scrutiny	<p>The Director of Resources will present the Treasury Strategy Statement to the Overview and Scrutiny committee prior to agreement by the Finance and Corporate Services Committee.</p> <p>The Overview and Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices (TMP's)</p>



**TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

*Principle: The Director of Resources will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques**. The form which the Council's budget will take is set out in the schedule below.*

*The Director of Resources will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.*

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

**Schedule:**

Statutory/regulatory requirements	<p><b>Balanced Budget Requirement:</b> The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects;</p> <p>(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and</p> <p>(b) revenue costs which flow from capital financing decisions.</p> <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
Proper accounting practice	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (the local authority code) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

Financial Statements	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none"> <li>▪ A Narrative Statement</li> <li>▪ Accounting policies, changes in accounting estimates and errors</li> <li>▪ Presentation of financial statements</li> <li>▪ Movement in reserves statement</li> <li>▪ Comprehensive income and expenditure statement</li> <li>▪ Balance sheet</li> <li>▪ Cash flow statement</li> <li>▪ Collection Fund (England)</li> <li>▪ Statement of Responsibilities</li> <li>▪ The Accounting Statements</li> <li>▪ Notes to the financial statements</li> <li>▪ Statements reporting reviews of internal controls or internal financial controls</li> <li>▪ Events after the reporting period</li> <li>▪ Related party disclosures</li> </ul>
Format of the Council's accounts	The current form of the Council's accounts is available within the Finance department.
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.

<p>Treasury-related information requirements of external auditors</p>	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.</p> <p>Information in this context includes internally generated documents, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.</p> <ul style="list-style-type: none"> <li>▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.</li> <li>▪ Prudential Indicators.</li> <li>▪ Treasury Management Strategy including Annual Investment Strategy.</li> </ul> <p><u>External borrowing:</u></p> <ul style="list-style-type: none"> <li>• New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)</li> <li>• Loan maturities.</li> <li>• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.</li> <li>• Analysis of loans outstanding at year end including maturity analysis.</li> <li>• Analysis of borrowing between long- and short-term</li> <li>• Debt management and financing costs <ul style="list-style-type: none"> <li>▪ calculation of (i) interest paid (ii) accrued interest</li> <li>▪ interest paid</li> </ul> </li> <li>• MRP calculation and analysis of movement in the CFR.</li> <li>• Bank overdraft position.</li> <li>• Brokerage/commissions/transaction related costs.</li> </ul> <p><u>Investments:</u></p> <ul style="list-style-type: none"> <li>• Investment transactions during the year including any transaction-related costs</li> <li>• cash and bank balances at year end</li> <li>• Short-term investments at year end</li> <li>• Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end</li> <li>• calculation of (i) interest received (ii) accrued interest</li> <li>• actual interest received</li> <li>• External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)</li> <li>• Basis of valuation of investments</li> <li>• Evidence of existence and title to investments (e.g. Custodian's Reports</li> <li>• Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.</li> </ul>
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	<p><u>Cash Flow</u></p> <ul style="list-style-type: none"> <li>▪ Reconciliation of the movement in cash to the movement in net debt</li> <li>▪ Cash inflows and outflows (in respect of long-term financing)</li> <li>▪ Cash inflows and outflows (in respect of purchase/sale of long-term investments)</li> <li>▪ Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources</li> </ul> <p><u>Other</u></p> <p>Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.</p> <ul style="list-style-type: none"> <li>▪ External advisors'/consultants' charges</li> </ul>
Internal Audit	<p>Internal Audit generally conducts an annual review of the treasury management function and probity testing. The internal auditors will be given access to treasury management information/documentation as required by them.</p>
Compliance with CIPFA Treasury Management and Prudential Codes	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
Costs for treasury management	<p>The budget for treasury management forms part of the Financial Services budget.</p>

**TMP 8: CASH AND CASH FLOW MANAGEMENT**

*Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Resources, 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 TMP1 [2] liquidity risk management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.*

**Schedule:**

<p>Arrangements for preparing /submitting cash flow statements</p>	<p>A Cash flow forecasts will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances during the year.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p><b>Daily cash flows</b> show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the Investments spreadsheet ( IOSF yyyy-yyyy)</p>
<p>Content and frequency of cash flow projections</p>	<p>The detailed annual cash flow model includes the following:</p> <ul style="list-style-type: none"> <li>• revenue income and expenditure based on the budget.</li> <li>• profiled capital income and expenditure as per the capital programme.</li> </ul> <p><b>Revenue activities:</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Precepts received</li> <li>▪ Non domestic rates receipts</li> <li>▪ Council tax receipts</li> <li>▪ Housing subsidy</li> <li>▪ DSS / other government grants</li> <li>▪ Cash for goods and services</li> <li>▪ Other operating cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Salaries and payments on behalf of employees</li> <li>▪ Operating cash payments</li> <li>▪ Housing Benefit paid</li> <li>▪ Precepts paid</li> <li>▪ NDR payments</li> </ul> <p><b>Capital activities including financing</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Capital grants received</li> <li>▪ Sale of fixed assets</li> <li>▪ Other capital cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Purchase of fixed assets</li> <li>▪ Purchase of long-term investments</li> <li>▪ Other capital cash payments</li> </ul>

Monitoring, frequency of cash flow updates	<p>The annual cash flow statement is updated periodically with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with :</p> <ul style="list-style-type: none"> <li>• net RSG and NNDR payments as notified;</li> <li>• county council and police authority precepts as notified;</li> <li>• actual salaries and other employee costs paid from account bank statements;</li> <li>• actual payments to Inland Revenue from general account bank statements;</li> <li>• actual council tax received from general account bank statement;</li> <li>• actual rent allowances paid from payments account bank statement;</li> <li>• actual housing benefit and housing subsidy grant received from CLG;</li> <li>• actual capital programme expenditure and receipts.</li> </ul>
Bank statements procedures	<p>The Council accesses its bank statements online and these are downloaded on a daily basis. The statements are processed and posted independently to the treasury function and are reconciled to the general ledger on a monthly basis.</p>
Payment scheduling	<p>The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> <li>• <i>Undisputed invoices are to be paid within 30 days.</i></li> </ul>
Monitoring debtor / creditor levels	<p>Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the Finance Manager which will include an analysis of debt by age and details and details of recovery status.</p>
Banking of funds	<p>Instructions for the banking of income are set out in the Financial Regulations. Cheques received in the customer services section are banked daily. Generally the council does not take cash payments.</p> <p>All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.</p>

**TMP 9: MONEY LAUNDERING**

**Background:** The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

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

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

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

**Schedule:**

Anti money laundering policy	<p>This Council’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
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<p>Nomination of Responsible Officer(s)</p>	<p>(a) The Council nominates the Legal and Democratic Services Manager to be the responsible body to whom any suspicions relating to transactions involving the Council will be communicated.</p> <p>(b) The responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>
<p>Procedures for establishing the Identity of Lenders and Borrowers</p>	<p>(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.</p> <p>(b) The Council will not accept loans from individuals.</p> <p>(c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.</p> <p>(d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/ Prudential Regulation Authority's website.</p> <p>(e) All receipts/disbursements of funds will be undertaken by <u>BACS</u> or <u>CHAPS</u> settlement.</p> <p>(f) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.</p> <p>(g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.</p> <p>(h) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through <u>pre-existing</u> contact details for the payee before altering payment details.</p>

**TMP 10: TRAINING AND QUALIFICATIONS**

*Principle: 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 Director of Resources will recommend and implement the necessary arrangements.*

*The Director of Resources will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.*

*Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.*

*The present arrangements are detailed in the schedule below.*

**Schedule:**

Qualifications/ experience for treasury staff	<i>Treasury Staff should have the AAT qualification as a minimum and preferably prior experience in Treasury management.</i>
Details of approved training courses	<p>The courses/events the Council would expect its treasury personnel to consider are <i>(examples below)</i>:</p> <ul style="list-style-type: none"> <li>▪ Certificate in International Treasury Management - Public Finance <i>(this is the new CIPFA TM qualification run by the Association of Corporate Treasurers)</i></li> <li>▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance &amp; Borrowing, Financial Management run by CIPFA and IPF</li> <li>▪ Any courses/seminars run by Treasury Management Consultants.</li> <li>▪ Attending CIPFA Conference</li> <li>▪ Training provided by those responsible for scrutiny of the treasury function</li> </ul>

**TMP 11: USE OF EXTERNAL SERVICE PROVIDERS**

*Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It 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 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 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 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 below.*

**Schedule:**

Contract threshold	The Council's Financial Regulations require that a formal written contract is in place with external service providers where the contract value exceeds £50,000 over the term. The contract will clearly state the services to be provided and the terms on which they will be provided.
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<p>Details of service providers and procedures and frequency for tendering services</p>	<p>(a) Bankers to the Council:  Nat West,  Po Box 333,Silbury House  300 Silbury Boulevard , Central Milton Keynes, MK9 2ZF  0845 308 8969  Contract period : 1 April 2016 - March 2019  Formal agreement in place : yes  This service will be re-tendered every 3 years</p> <p>(b) Treasury advisor  Arlingclose  35 Chiswell Street  London EC1Y 4SE  08448 808201  Contract period : 1 April 2015-31 March 2018  Formal agreement in place : yes  This service may be re-tendered every 3 years</p> <p>(d) Brokers:  It is considered good practice for the Council to have at least two brokers and to spread business between them.  BGC Partners Sterling Products  1 Churchill Place, Canary Wharf, London, E14 5RD  0207 894 7742    Formal agreement in place : no    R P Martin Brokers  1 Churchill Place,Canary Wharf , London, E14 5RD  0207 894 8987    Formal agreement in place : no</p>

**TMP 12: CORPORATE GOVERNANCE**

*Principle: 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 recommendations of the Code. This, together with the other arrangements detailed in the schedule below, 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.*

**Schedule:**

Stewardship responsibilities	The Chief Executive ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	The following documents are freely available for public inspection: <i>Examples</i> <ul style="list-style-type: none"> <li>▪ Annual Statement of Accounts</li> <li>▪ Revenue and Capital Estimates Book</li> <li>▪ Treasury Management Policy</li> <li>▪ Treasury Management Strategy</li> <li>▪ Budget Monitoring Reports</li> <li>▪ Annual Treasury Report</li> </ul>
Council's website.	Financial information is additionally available on the Council's website.
Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Finance and Corporate Services Committee and officer/member briefing sessions.