

# Treasury Management Practices

## Principles and Schedules

September 2018



South Somerset District Council

## **Introduction**

The CIPFA Treasury Management in the Public Services Code of Practice (the Code) was last revised in December 2017. The Code has been reviewed and updated following recent developments in the marketplace and the introduction of the Localism Act 2011 for English local authorities **which gives local authorities the 'general power of competence' and enhances the freedoms within which local authorities operate. Regulations require local authorities to have regard to the Code in respect of its treasury management arrangements.**

The Code requires for 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 includes recommendations for the authority to create and maintain:

- 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 management
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
<b>TMP 13:</b>	<b>Management Practices for non-treasury investments</b>

## **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 responsible officer will design, implement and monitor all arrangement 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 TMP 6: Reporting requirements and management information arrangements.

### **1. Credit and counterparty risk management:**

**Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and 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 robust due diligence procedures cover all external investment.*** It will also 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 TMP 4: Approved instruments, methods and techniques. The Council also recognises the need to 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.

*Schedules:*

A. Criteria to be used for creating/managing approved counterparty lists/limits

- The S151 Officer is responsible for setting prudent criteria, ***taking appropriate advice, guidance and assistance from the Council's treasury advisors.***
- The criteria will be agreed by Audit Committee and Full Council.
- The current criteria is contained within the operations manual.
- 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, Credit Default Swap 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.
- 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.
- 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).
- 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.

## B. Approved methodology for changing limits and adding/removing counterparties

- The S151 Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above
- Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria then:
  - No new investments will be made
  - Any existing investments that can be recalled or sold at no cost will be
  - Full consideration will be given to the recall or sale of other existing investments with the affected counterparty.

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.

## C. Counterparty list and limits

- 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 within the operations manual.

## D. Country, sector and group listings of counterparties and overall limits applied to each where appropriate

- Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above in terms of monetary value/percentage of overall portfolio, where appropriate. Group limits for organisation under the same ownership will be set at the same level as the lead institution in that group.

## E. Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & 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.
- 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.

## F. Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment

- The Council's Treasury Advisor, Arlingclose, 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 of share price. 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. In addition the S151 Officer reads quality financial press for information on counterparties

## 2. Liquidity Risk Management:

**Liquidity risk is 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 objective will be thereby compromised.**

*Principle:* The S151 Officer 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 approved capital programme or to fund future debt maturities.

*Schedules:*

A. Cash flow and cash balances

- The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling minimum 6 month cash flow forecast.
- The treasury team will 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.
- In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's current account

B. Short term investments

- The Council uses various Reserve 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.

C. Temporary Borrowing

- 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.
- At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Council-approved Prudential Indicator for the Authorised Borrowing Limit.

D. Bank overdraft and standby facilities

- The Council has an authorised overdraft limit with Natwest of £500,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive, or for amounts of less than £200,000.

**3. Interest Rate Risk Management:**

**Interest Rate risk is 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.

*Schedules:*

A. Minimum/maximum proportions of fixed/variable rate debt/interest

- Borrowing/investments may be at a fixed or variable rate

- 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 within the Treasury Management Strategy.
- In setting its 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 effect of potentially disadvantageous changes.
- 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.

#### B. Managing changes to interest rate levels

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- The Council may determine it is more cost effective 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.
- Alternatively, the Council may consider forward starting loans 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.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- 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.

#### C. Details of approved interest rate exposure limits

- The upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management indicators included in the Treasury Management Strategy.

#### D. Details of hedging tools used to manage risk

- The Council's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Council does not intend to use derivatives to manage interest rate risk.
- Should this position change, the Council will develop a detailed risk management framework governing the use of derivatives, which will require full Council approval.

### 4. **Exchange Rate Risk Management:**

**The risk that the 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 ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuation in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

*Schedule:*

A. 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.
- If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.
- At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has determined that all its investments will be in sterling.

**5. Inflation risk (also called purchasing power risk):**

***The risk that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.***

*Principle:* The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

*Schedule:*

A. Inflation rate risk management

- In the current era of relatively low inflation, its impact on future income and expenditure streams is minimal.
- Although inflation is currently relatively low, consideration of this risk will continue to be part of the overall treasury strategy.

**6. Refinancing Risk Management:**

**The risk that maturing borrowing, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for such refinancing, 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.

*Schedules:*

A. Projected capital investment requirements

- 3 to 5 year projections are maintained for capital expenditure and financing. Financing will be from capital receipts, reserves, revenue contributions, grants or contributions received, internal or external borrowing.

- As required by the Prudential Code, the Council will undertake options appraisal to evaluate the best capital expenditure financing route.
- The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

#### B. 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, the approved Treasury Management Strategy and Capital Strategy.
- The Council will maintain through its treasury and capital systems reliable records of the terms and maturities of its borrowing, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing.
- 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.

#### C. Policy concerning limits on revenue consequences of capital financing

- The revenue consequences of financing the capital programme are included in cash flow models, annual revenue budget estimates and medium term forecasts.

### 7. Legal and Regulatory Risk Management:

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

*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 (A) 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.

*Schedules:*

#### A. References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
  - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
  - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
  - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
  - CIPFA Standard of Professional Practice on Treasury Management
  - The Local Government Act 2003
  - The Local Authorities (Capital Finance and Accounting) (England ) Regulations 2003 SI 2003 No 3146, and subsequent amendments
  - The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
  - The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments



- The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
- LAAP Bulletins
- Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
- Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
- The Localism Act 2011
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
- Council's Constitution including:-
  - Standing Order relating to Contracts
  - Financial Regulations
  - Scheme of Delegation

B. Procedures for evidencing the organisation's powers/authorities to counterparties

- The Council's Financial Procedure Rules 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 Audit Committee.
- The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.
- 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.

C. Required information from counterparties concerning their powers/ authorities

- 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.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from any other bank or building society authorised to operate in the UK thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

D. Statement on political risks and management of the same

- Political risk is managed by:
  - adoption of the CIPFA Treasury Management Code of Practice
  - adherence to Corporate Governance (TMP 12 – Corporate Governance)
  - adherence to the Statement of Professional Practice by the S151 Officer
  - the roles of the Audit Committee

## **8. Fraud, Error and Corruption, and Contingency Management:**

This is 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:*

### A. Details of systems and procedures to be followed, including Internet services

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.

#### 1. Electronic Banking and Dealing

- a) The Council's online banking service provided by Natwest 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.
- b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password.

**S151 Officer**

**Lead Specialist - Finance**

**Finance Specialists x 3**

**Support Services Case Services Officers x 2**

- c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.

#### 2. Standard Settlement Instructions

- a) A list is maintained of named officers who have the authority to transact loans and investments.
- b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list.

#### 3. Payment authorisation

- a) Payments can only be approved by authorised signatories of the Council, the list of signatories having previously been agreed with the Council's bank.
- b) Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.

### B. Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- 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.
- 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 before amending payment details.

#### C. Substantiation

- The Treasury Management spreadsheets are reconciled with financial ledger codes at the end of each month and at the financial year end.
- Working papers are retained for audit inspection.
- The bank reconciliation is carried out monthly from the bank statement to the financial system.

#### D. Internal Audit

- Internal Audit carry out regular reviews of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

#### E. Contingency Management

- 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 department to restore files, if necessary.
- If the electronic banking system fails the Council have to contact the bank via telephone who will provide balances for the day. If any CHAPS payments are to be made manual forms are completed and faxed/taken to the bank before 12 noon so they can be processed on the Council's behalf.

#### F. Insurance Cover details

- The Council has Fidelity guarantee insurance cover. Details of the provider and cover are held by the Support Services Case Services Officer.

### 9. Price 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.

*Schedules:*

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

- 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.
- Additionally, should the Council have segregated fund management arrangements, then risk control guidelines will be set for each fund management agreement to control market risk:
  - (a) Maximum weighted average duration of the fund;
  - (b) Maximum permitted exposure to gilts/bonds;
  - (c) Maximum maturity of any instrument.

#### B. Accounting for unrealised gains/losses

- The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice
- Variable Net Asset Value pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.

## **TMP 2: Performance Measurement**

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

*Principle:* 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.

*Schedules:*

### A. Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided 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, by:
  - a) Challenging
  - b) Comparing performance
  - c) Consulting with other users and interested parties
  - d) Applying competition principles

### B. Policy concerning methods for performance measurement

- Performance measurement 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.
- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- 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.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:
  - a) 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
  - b) Permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- 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.

### C. Methodology to be applied for evaluating the impact of treasury management decisions

- Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out by the Lead Finance Specialist, with financial implications included in budget monitoring reports.
- The mid-year and year-end Treasury Performance Reports will also include performance and narrative in meeting the approved Prudential Indicators.
- The Council's Treasury Management advisors compare the performance of the Council's in-house funds against all its other clients and submits the results quarterly to the S151 Officer.

#### D. Benchmarks and calculation methodology with regard to risk and return

- Investment returns are compared to the 7-day LIBID benchmark. For Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.

#### E. Best Value

- 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.
- When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.

### **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.

#### *Schedules:*

##### A. 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) Changes to Prudential Indicator(s) during the course of the financial year
  - b) Options Appraisal to determine a funding decision
  - c) Raising a new long-term loan / long-term source of finance
  - d) Prematurely restructuring/redeeming an existing long-term loan(s)
  - e) Investing longer-term (i.e. in excess of 1 year)
  - f) Utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a corporate body)
  - g) Leasing
  - h) Change in banking arrangements
  - i) Appointing/replacing a treasury advisor
  - j) Appointing/replacing a fund manager

##### B. Process

- The Council's strategy for the application of its treasury policy is set out in the Treasury Management Strategy.

- Based on the Treasury Management Strategy, the Specialist - Finance will on a monthly basis prepare 24 month rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:
  - applying the strategy on a day to day basis
  - monitoring the results of the strategy
  - recommending amendments to the strategy to the Audit Committee where applicable during the course of the year.

#### C. Delegated powers for treasury management

- The S151 Officer 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.

#### D. Issues to be addressed, evaluation, authorisation

- In exercising these powers, the S151 Officer and those to whom the treasury activity have been delegated will
  - Have regard to the nature and extent of any associated risks to which the Council may become exposed
  - Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
  - 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
  - Ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits
  - Be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive
  - Follow best practice in implementing the treasury transaction.
- In exercising Borrowing and Funding decisions, the responsible person will
  - Evaluate economic and market factors that may influence the manner and timing of any decision to fund
  - Consider alternative forms of funding, including use of revenue resources, leasing and private partnerships
  - Consider the use of internal resources and/or, the most appropriate periods to fund and repayment profiles to use
  - Consider ongoing revenue liabilities created
  - Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.
- In exercising Investment decisions, the responsible person will
  - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
  - Consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
  - Consider the risk associated with unsecured investments with banks and building societies
  - Consider the alternative investment products and techniques available if appropriate.

#### E. Processes to be followed

- The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

#### F. Evidence and records to be kept

- 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 a historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.
- Records and working papers will be securely stored and maintained in line with proper accounting practice and the Council's record management policies.

#### **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.

The Council has reviewed its classification with financial institutions under MiFID II and has set out in the schedule those organisations with which it is registered as a professional client. If not registered as a professional client the Council, by default is treated as a retail client by financial institutions.

#### *Schedules:*

##### A. Approved treasury management activities

- The Council is permitted to undertake the following activities
  - Managing cash flow
  - Capital financing
  - Borrowing including debt restructuring and debt repayment
  - Lending including redemption of investments
  - Banking
  - Leasing
  - Managing the underlying risk associated with the Council's capital financing and surplus funds activities.
- 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.

##### B. Approved capital financing methods and types/sources of funding

- On balance sheet
  - Public Works Loans Board (PWLB) loans and any successor body
  - Long term money market loans including forward starting loans and LOBOs
  - Temporary money market loans (up to 364 days).
  - Bank overdraft
  - Loans from bodies such as the European Investment Bank (EIB)
  - Stock issues
  - Deferred Purchase
  - Government and EU Capital Grants
  - Lottery monies
  - Other Capital Grants and Contributions
  - Private Finance Initiative
  - Operating and finance leases

- Hire Purchase
- Sale and leaseback
- Internal Resources
  - Capital Receipts
  - Revenue Balances
  - Reserves
- Approved sources of long-term and short-term borrowing include
  - Public Works Loan Board (PWLB) and its successor body
  - Any institution approved for investments
  - Any other bank or building society authorised to operate in the UK
  - UK public and private sector pension funds
  - UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

#### C. Approved investment instruments

- 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 in the MHCLG Investment Guidance 2018 (as amended).
- 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.
  - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
  - Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit)
  - Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
  - Treasury Bills
  - Gilts
  - Bonds issued by multilateral development banks
  - Sterling denominated bonds by non-UK sovereign governments
  - Covered bonds (i.e. those with underlying collateral)
  - Unsecured corporate bonds
  - Reverse Repurchase Agreements ('reverse repos')
  - Investments with Registered Providers of Social Housing (i.e. housing associations)
  - Commercial paper
  - Floating Rate Notes
  - Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 and subsequent amendments
  - Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments
- The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the manager

#### D. Use of Derivatives



- The Council intends to use derivative instruments for the management of risks, limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
- Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives. Should this position change, the Authority may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

### **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 responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

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

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the responsible officer in respect of treasury management are set out in the schedule below. The responsible officer 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.

*Schedules:*

#### A. Limits to responsibilities at Executive levels

##### **Council**

- Budget consideration and approval.
- Approval of amendments to the Treasury Management Strategy, the organisation's adopted clauses and treasury management policy statement
- Approval of annual report on Treasury Management

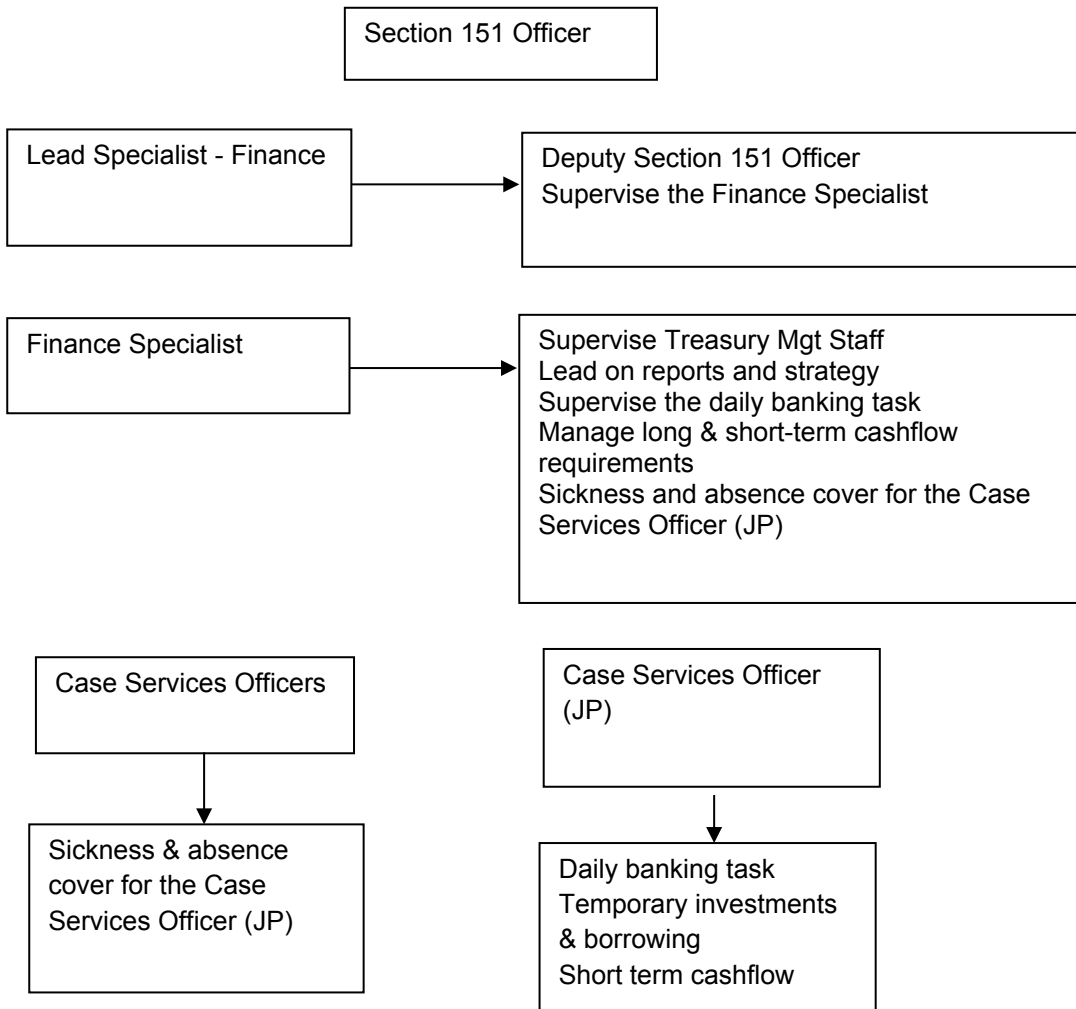
**Audit Committee**

- Receiving and reviewing reports on treasury management policies, practices and activities
- Receiving and reviewing Prudential Indicators as part of the budget setting process
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the Treasury Management Practices
- Approving the selection of external service providers and agreeing terms of appointment
- Overview of Treasury Management function

**B. Principles and practices concerning segregation of duties**

- Officers involved in the daily banking task are not to undertake bank reconciliation duties.
- Authorised signatories signing CHAPS forms are not to authorise that payment on the Bankline system.

### C. Statement of duties/responsibilities of each treasury post



#### S151 Officer

- The S151 Officer will:
  - a) Regularly review and recommend treasury management policy and practices for approval, and monitor compliance
  - b) Determine Prudential Indicators, Treasury Management Strategy (including the Annual Investment Strategy) and Capital Strategy
  - c) Submit regular treasury management policy reports
  - d) Submit budgets and budget variations
  - e) Receive and review management information reports
  - f) Review the performance of the treasury management function and promote best value reviews
  - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
  - h) Ensure the adequacy of internal audit
  - i) Liaise with external audit
  - j) Recommend the appointment of external service providers.
- The S151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

- The S151 Officer may delegate powers to borrow and invest to specified staff members. The Lead Specialist - Finance, Finance Specialist, Case Services Officers or other staff authorised by the S151 Officer to act as temporary cover for leave/sickness, must conduct all dealing transactions. All transactions must be authorised by at least two of the named officers above.
- The S151 Officer will ensure that the Policy is adhered, and if not will bring the matter to the attention of elected members as soon as possible.
- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Monitoring Officer (Lead Specialist - Legal), the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
- It is also the responsibility of the S151 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

### **Finance Specialist**

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising activities of treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring the Treasury Management Budget
- e) Managing long and short term cash flow
- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

### **Chief Executive Officer**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the S151 Officer reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

### **Monitoring Officer**

The responsibilities of this post will be: -

- a) Ensuring compliance by the S151 Officer with the treasury management policy statement and treasury management practices and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- c) Giving advice to the S151 Officer when advice is sought.

### **Internal Audit (SWAP)**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activities
- d) Undertaking probity audit of treasury function.

D. Absence cover arrangements

- In the absence of the S151 Officer, the Lead Specialist – Finance (Deputy S151 Officer) shall take on board the responsibilities and duties of the S151 Officer.
- Under the supervision of the Specialist Finance, the general day to day activities shall be undertaken by the Case Services Officer (JP). However, this may from time to time passed to other Case Services Officers.
- In the absence of the Specialist Finance, the responsibilities and duties will be undertaken by the Lead Specialist - Finance or other Finance Specialist (or officers authorised by the S151 Officer to act as temporary cover) supported by the rest of the Treasury Management team.

#### E. Dealing limits

- Currently there is a £6m upper limit in the total value of out-going CHAPS transactions in any one day without reference to the National Westminster Bank plc. Transactions that will exceed the £6m limit will be referred back to the Treasury team for explanation.

#### F. List of approved brokers

- Martins Brokers (UK) plc, 25 Dowgate Hill, London, EC4R 2BB
- London Currency Brokers, LCB House, 3 Scrutton Street, London, EC2A 4HF
- Prebon Yamane (UK) Ltd, 155 Bishopsgate, London, EC2N 3DA
- Tradition (UK) Ltd, Beaufort House, 15 St Botolph Street, London, EC3 7QA

#### G. Policy on brokers' services

- It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a register of business between them in order to avoid relying on the services of any one broker. Any changes to the list of approved brokers will not be made without prior consultation with the S151 Officer.

#### H. Policy on recording of conversations

- In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The recordings are to be kept for a minimum period of one year.

#### I. Direct dealing practices

- Direct dealing is carried out with institutions identified in the Operations Manual subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.

#### J. Settlement transmission procedures

- The preferred method of transmitting information relating to deals is by email.

#### K. Documentation requirements

- Copy of CHAPS form confirming transmission of funds to counterparty
- Broker/direct dealer documentation confirming counterparty, deal amount, maturity date and rate.

#### L. Arrangements concerning the management of third-party funds.

- The following funds are managed by South Somerset District Council:
  - Joint Burial Committee
  - Dorcas House Trust
  - ACI Chard Regeneration Scheme

However, there are small amounts of money held on behalf of third parties that have been held for many years. These sums are immaterial and absorbed into the cash balances of the Council. There being no further interest payable, the principal will be repaid to the third party on the production of appropriate documentation.

## **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, Full Council will receive:

- a) An annual report on the strategy and plan to be pursued in the coming year
- b) A mid-year review
- c) 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.

***In line with the Prudential Code 2017, Council may choose to delegate (b) and (c) to the Audit Committee (or other committee).***

The Audit Committee will receive regular monitoring reports on treasury management activities, performance and risks usually in the form of the mid-year and annual reports subsequently presented to Full Council.

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

*Schedules:*

### A. Frequency of executive reporting requirements

- The responsible officer will annually submit budgets and will report on budget variations as appropriate.
- The responsible officer will submit the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Full Council before the start of the year.
- A Mid-Year Treasury Report will be prepared by the responsible officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Full Council during the year.
- The Annual Treasury Report will be prepared as soon as practicable after the financial year end.
- All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.

### B. Content of Reporting: 1. Prudential Indicators

- The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:
  - Financing costs as a proportion of net revenue stream (estimate; actual)
  - Capital expenditure (estimate; actual)
  - Capital Financing Requirement (estimates; actual)

- Authorised limit for external debt
  - Operational boundary for external debt
  - Actual external debt
  - Upper and lower limits to maturity structure of fixed rate borrowing
  - Upper limit to total of principal sums invested longer than 364 days.
- The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.
  - The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

C. Content of Reporting: 2. Treasury Strategy Statement including the Annual Investment Strategy

- The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:
  - Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
  - Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
  - the extent to which surplus funds are earmarked for short term requirements
  - the investment strategy for the forthcoming year(s)
  - the minimum to be held in short term/specified investments during the coming year
  - the interest rate outlook against which the treasury activities are likely to be undertaken.

**Note: The MHCLG Investment Guidance 2018 requires the Council to prepare an annual Capital Strategy for 2019/20 onwards. Most if not all Prudential Indicators will be included in the Capital Strategy which will be considered for approval in February 2019.**

- Based on the MHCLG's Guidance on Local Authority Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out
  - the objectives, policies and strategy for managing its investments;
  - the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
  - the limits for the use of Non-Specified Investments.
- The AIS will be integrated into the Treasury Strategy Statement.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

D. Content of Reporting: 4. Mid-Year Treasury Report

- The Finance Specialist will produce a mid-year report for Full Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.
- The main contents of the report will comprise:
  - Economic background
  - Economic forecast (including interest rates forecast)
  - Treasury Management Strategy Statement update
  - Performance versus benchmarks



- Borrowing information (including premature repayment, new loans information)
  - Information on investments, including current lending list
  - Prudential indicators relating to treasury management
  - Governance framework and scrutiny arrangements
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

#### E. Content of Reporting: 3. Annual Treasury Report

- The Finance Specialist will produce an annual report for Full Council on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.
- The main contents of the report will comprise:
  - confirmation that the Council calculated its budget requirements and set a balanced budget for the forward year;
  - the prevailing economic environment
  - a commentary on treasury operations for the year, including their revenue effects;
  - commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council
  - compliance with agreed policies/practices and statutory/regulatory requirements
  - compliance with Prudential Indicators;
  - performance measures.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

#### F. Content and frequency of management information reports

- Management information reports will be prepared each quarter by the Finance Specialist and will be presented to the S151 Officer.
- These reports will contain the following information: -
  - Summary cash flow forecasts
  - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
  - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
  - Details of fees payable.
  - Current and forecast borrowing requirement, analysed between internal and external borrowing
  - Forecast of surplus/deficit for the financial year against treasury budgets (interest costs and income).
  - Narrative highlighting performance, opportunities, risks and any areas of concern or areas of note.

### **TMP 7: Budgeting, accounting and audit arrangements**

*Principle:* The Responsible Officer 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 Responsible Officer 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.

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

*Schedule:*

A. Statutory/regulatory requirements

- The framework for accounting in local government comes from the Code of Practice on Local Authority Accounting in the UK and related Guidance issued by CIPFA.

B. Proper accounting practice

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

C. Financial Statements

- The Council's financial statements are produced annually, reported to the Audit Committee for approval and published on the Council's website.

D. Treasury-related information requirements of external auditors

- 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. Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.
  - Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
  - Prudential Indicators.
  - Treasury Management Strategy including Annual Investment Strategy.
- Investments:
  - Investment transactions during the year including any transaction-related costs
  - Cash and bank balances at year end
  - Short-term investments at year end
  - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end

- Calculation of (i) interest received (ii) accrued interest
  - Actual interest received
  - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
  - Basis of valuation of investments
  - Evidence of existence and title to investments (e.g. Custodian's Reports)
  - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
- Cash Flow:
    - Reconciliation of the movement in cash to the movement in net debt
    - Cash inflows and outflows (in respect of long-term financing)
    - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
    - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

#### E. Internal Audit

- Internal Audit generally conducts an annual review of the treasury management function and probity testing, **as one of the key control audits included in the Audit Plan. This may be reviewed less frequently if the level of assurance is "Substantial"**.
- The internal auditors will be given access to treasury management information/documentation as required by them.

#### F. Compliance with CIPFA Treasury Management and Prudential Codes

- Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.
- Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.

### **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 responsible officer, 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 responsible officer 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.

*Schedules:*

#### A. Arrangements for preparing /submitting cash flow statements

- The Case Services Officer (JP) prepares the monthly cash flow statement and the daily cash flow statement in liaison with the Finance Specialist. Information from both statements is then used to plan investments and borrowing. The forecasts should be maintained for a minimum of six months ahead.
- The Finance Specialist also prepares a long-term cash flow forecast covering the current financial year and the next two financial years.
- The cash flow forecasts and statements are held at operational level.

- The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.

#### B. Content and frequency of cash flow projections

- The detailed annual cash flow model includes the following:
  - revenue income and expenditure based on the budget as updated for known material variances.
  - profiled capital income and expenditure as per the capital programme
  - profiled collection fund tax revenues and distribution schedules

#### C. Monitoring, frequency of cash flow updates

- The annual cash flow statement is updated monthly 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:
  - net funding through Government Grants and business rates receipts and payments as notified;
  - precept payments
  - actual salaries and other employee costs paid from account bank statements;
  - actual payments to Inland Revenue from general account bank statements;
  - actual council tax received
  - actual rent allowances paid
  - actual housing benefit payments and subsidy income;
  - actual capital programme expenditure and receipts.

#### D. Bank statements procedures

- The Council has access to view bank statements on its banking system as required. These are reconciled to the general ledger on a monthly basis.

#### E. Payment scheduling

- Major payments to creditors are pre-arranged and usually bypass the normal creditors payment processing, ie they are paid via the CHAPS system. Of the remaining creditors, statute requires that invoices are paid within 30 days of receipt. Current agreed practice is that invoices will be paid within 10 working days or in accordance with the creditor's supplier terms, this is in line with the prompt payment code we have signed up to.

#### F. Monitoring debtor and creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.
- The level of Creditor invoices being processed is monitored on a monthly basis by the responsible staff within the Exchequer function.

#### G. Banking of funds

- Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received are banked daily.
- Staff 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.

## H. Listing of sources of information

- The treasury function receives cash flow information for the following:-
  - Government information eg NNDR/RSG/RSDG/NHB payments and dates
  - Information from other outside bodies eg Somerset County Council precepts and dates
  - Debtor payments
  - Creditor payments
  - Housing Benefit payments
  - Direct Debit payments
  - Monthly salaries & wages
  - Capital Programme

## I. Practices concerning prepayments to obtain benefits

- Income received in advance from debtors is credited to their respective account. No interest or discount is given for early settlement.

## **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 June 2017, the UK Government published the Money Laundering Regulations 2017, replacing previous 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 members 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.

*Schedules:*

## A. Anti money laundering policy

- 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.
- 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.

#### B. Treasury documentation

- The Council will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:
  - Awareness of what constitutes money laundering
  - The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed
  - Maintaining up-to-date direct dealing and SSI mandates with counterparties

#### C. Nomination of Responsible Officer

- The Council has nominated the Section 151 Officer to be the Money Laundering Responsible Officer (MLRO) to whom any suspicions relating to transactions involving the Council will be communicated.
- The responsible officer will be conversant with the requirement for the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.
- 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).

#### D. Procedures for establishing the Identity of Lenders and Borrowers

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.
- The Council will not accept loans from individuals.
- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.
- 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 Bank of England/Prudential Regulation Authority's website.
- All receipts/disbursements of funds will be undertaken by CHAPS settlement.
- 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.
- All banking transactions will only be undertaken by the staff authorised to operate the Council's banks accounts.

- If the Council takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.
- When receiving request 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 before altering payment details.

### **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 Lead Specialist – Finance will recommend and implement the necessary arrangements.

The responsible officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

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

*Schedule:*

#### A. Qualifications/ experience for treasury staff

- CCAB part or fully qualified
- Member of the Association of Accounting Technicians part or fully qualified

#### B. Details of approved training courses

The courses/events the Council would expect its treasury staff to consider are

- Certificate in International Treasury Management – Public Finance
- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF
- Any courses/seminars run by Treasury Management Consultants/Advisors.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function

Records of training received by treasury staff

- The Council participates in the CIPFA/ACCA/CIMA Employer Accreditation Schemes for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.

### **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 responsible officer, and details of the current arrangements are set out in the schedule below.

*Schedule:*

A. Banking services

- Service provided by: National Westminster Bank plc
- Contract commenced 1/10/14 and runs until 31/3/20.
- Payments due quarterly in arrears and monthly for the electronic banking service.
- Terms for early termination of the contract: The organisation may terminate the agreement at any time by 3 months' written notice to the Manager and the Manager may terminate the agreement on 3 months' written notice to the organisation.

B. Money-broking services

- Providers of service:-
  - Martin Brokers (UK) plc
  - Prebon Yamane
  - London Currency Brokers
  - Tradition UK

C. Cash/fund management services

- None

D. Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 March 2015 and expires on 28th February 2018, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Payments due annually on 1 April
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months notice after 28th February 2018.

E. Bribery Act

- The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

**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 applies the key recommendations of the Treasury Management Code of Practice. 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 responsible



officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

*Schedule:*

A. List of documents to be made available for public inspection.

- Annual Statement of Accounts
- Treasury Management Policy
- Treasury Management Strategy
- Budget Reports
- Budget Monitoring Reports
- Annual and Half-Year Treasury Report
- Council Committee Agendas and Minutes

B. Council's website

- Financial information is additionally available on the Council's website

C. Procedures for consultation with stakeholders

- Members and senior officers of the Council are consulted via reports to Senior Leadership Team, Leadership Meeting, District Executive and officer/member briefing sessions.

**TMP13: Non-Treasury Management Investments**

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

**The Council will ensure that all of its investments are covered in the capital strategy (to be produced in February 2019), investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.**

**Schedule:**

- A published schedule agreed by Council setting out the organisation's investment management practices for non-treasury investments will be complied with by all officers responsible for such investments.
- A schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.
- CIPFA suggests that authorities should replicate TMP 1-12 under the TMP for non-treasury management investments, as far as this is relevant, practicable and applicable. It particularly listed TMPs 1, 2, 5, 6, and 10. Details of the relevant TMP's are below: -
  - Risk management (TMP1) including investment and risk management criteria for material non-treasury investment portfolios
  - Performance management (TMP2) including methodology and criteria for assessing the performance and success of non-treasury investments
  - Decision-making and analysis (TMP5) including a statement of the governance requirements for decision-making in relation to non-treasury investments, and

arrangements to ensure that appropriate professional due diligence is carried out to support decision making

- Reporting requirements and management information arrangements (TMP6) including where and how often monitoring reports are taken
- Training and qualifications (TMP10) including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.