

# **TREASURY MANAGEMENT PRACTICES**

## ***Principles & Schedules***

***October 2011***

***South Somerset District Council***

## TREASURY MANAGEMENT PRACTICES

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## **TMP 1 RISK MANAGEMENT**

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

### **1.1 CREDIT AND COUNTERPARTY POLICIES**

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 to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

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

- a) The Assistant Director – Finance and Corporate Services will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector, sovereign status and specific counterparty limits.
- b) Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. All credit warnings are sent to a generic e-mail address: Treasury. This inbox must be checked for any alerts before investments are made.
- c) 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.
- d) 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, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

- e) The Assistant Director – Finance and Corporate Services has imposed the use of Sovereign ratings. The sovereign rating criteria the Council has adopted will be as follows (using the lowest common denominator across all three rating agencies)

£12.0 million for an AAA rated country

£6.0 million for an AA+ rated country

The Council will not be investing in any country that has less than an AA+ rating. Investments within Great Britain are exempt from the sovereign rating criteria.

The overall aim is to ensure that no more than £6.0 million is invested in any one counterparty or group.

There is no limit to lend to the following institutions (as these are AAA rated government bodies): -

Debt Management Account Deposit Facility (DMADF)

European Investment Bank (EIB)

The maximum period for investments will be 5 years, with the exception of UK gilts, sovereign issues and bonds issued by financial institutions guaranteed by the UK government, and bonds issued by the EIB (which is guaranteed by the governments of the European Union).

1. The maximum period for investment for subsidiaries of counterparties which do not have credit ratings in their own right, but do have unconditional guarantees from a parent is nil.
2. The maximum value for any one investment transaction will be £6.0 million for all counterparties included within the lending list (except those that are specifically £3m).
3. There is a maximum level of investment with any one group of counterparties of £6.0 million.
4. There is no maximum percentage of the portfolio that may be invested in the building society sector.
5. The approved counterparty list may include non UK registered counterparties from the following foreign countries: -

Australia

Canada

Finland

Germany

Netherlands

Sweden

Switzerland

United States of America

Dealing shall be conducted, either directly or via a broker, having first consulted the FSA register of organisations authorised to accept deposits within the UK.

[www.fsa.gov.uk/pages/library/other\\_publications/banks](http://www.fsa.gov.uk/pages/library/other_publications/banks))

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

Credit ratings for individual counterparties can change at any time. The Assistant Director – Finance and Corporate Services is responsible for applying the stated credit rating criteria in 1.1.1. when selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The Assistant Director – Finance and Corporate Services will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.1.1.

The Assistant Director – Finance and Corporate Services will also take action to suspend various institutions and/or increase credit rating criteria where changes in risks are identified.

### 1.1.2. Full individual listings of counterparties and counterparty limits as at 17/10/11

Counterparty	Country	Maximum Limit of Investments %/£m
DMADF, DMO	UK	No limit
Other UK Local Authorities	UK	No limit
Santander UK (formally Abbey)	UK	£6,000,000
<del>Bank of Scotland/Lloyds</del> Temporarily Suspended	<del>UK</del>	<del>£6,000,000</del>
Barclays	UK	£6,000,000
<del>Clydesdale (This is part of the NAB group which has a combined limit of £6m)</del> Temporarily Suspended	<del>UK</del>	<del>£6,000,000</del>
HSBC	UK	£6,000,000
<del>Nationwide</del> Temporarily Suspended	<del>UK</del>	<del>£6,000,000</del>
<del>Royal Bank of Scotland</del> Temporarily Suspended	<del>UK</del>	<del>£6,000,000</del>
Australia and NZ Banking Group	Australia	£6,000,000
Commonwealth Bank of Australia	Australia	£6,000,000
National Australia Bank Ltd	Australia	See Clydesdale above
Westpac Banking Corp	Australia	£6,000,000
Bank of Montreal	Canada	£6,000,000
Bank of Nova Scotia	Canada	£6,000,000
Canadian Imperial Bank of Commerce	Canada	£6,000,000
Royal Bank of Canada	Canada	£6,000,000
Toronto-Dominion Bank	Canada	£6,000,000
Nordea Bank Finland	Finland	£6,000,000
<del>BNP Paribas</del> Temporarily Suspended	<del>France</del>	<del>£6,000,000</del>
<del>Credit Agricole CIB (part of the Credit Agricole Group which has a combined limit of £6m)</del> Temporarily Suspended	<del>France</del>	<del>£6,000,000</del>
<del>Credit Agricole SA (part of the Credit Agricole Group which has a combined limit of £6m)</del> Temporarily Suspended	<del>France</del>	<del>£6,000,000</del>
Deutsche Bank AG	Germany	£6,000,000
Rabobank	Netherlands	£6,000,000
ING	Netherlands	£6,000,000
Svenska Handelsbanken	Sweden	£6,000,000
Credit Suisse	Switzerland	£6,000,000
JP Morgan Chase Bank	US	£6,000,000

European Investment Bank/Council of Europe	EU	75%
CNAV MMFs	UK/Ireland/ Luxembourg	25%

### **1.1.3. Details of credit rating agencies' services or other services which provide current credit ratings and updates on changes**

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, supplied via its treasury management advisers, Arlingclose.

### **1.1.4. 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 on share price.

## **1.2 LIQUIDITY**

**The Council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to 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.**

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

There are no minimum cash balances as a proportion of SSDC's funds that are held in instantly accessible instruments and are liquid to the extent that funds can be returned at short notice.

The optimum daily cash balance is set at £0 but the minimum placement that will be accepted in the marketplace is approximately £700,000, plus each CHAPS transfer costs £10.00. Optimum short-term investments change from year to year depending on market forces in place. However, added value can be gained from investing smaller amounts (approximately £300,000) in the Money Market Funds at market rates.

Our Minimum rating is A+ long term (or equivalent). Although Natwest does not meet the minimum credit criteria of A+ (or equivalent) long term, it is the Council's bank and will still be used for operational purposes. Balances of smaller amounts (less than £300,000) will be kept within our Natwest Account to ensure operational and contingency purposes are maintained.

#### **1.2.2. Details of:**

##### **a) Standby facilities: -**

Manual CHAPS transfers can be processed at the local branch of National Westminster Bank by faxing them through a copy of our completed manual CHAPS form.

##### **b) Bank overdraft arrangements: -**

South Somerset District Council has a £0.5 million overdraft facility with National Westminster Bank. This is aggregated over all SSDC bank accounts held by them. The council has the facility to increase this to £2.5 million by request.

##### **c) Short-term borrowing facilities**

Section 12 of the Local Government Act, 2003 details all of the permitted sources of both short and long term borrowing for all LA's. Short-term borrowing can be by overdraft (as described above), loan instruments obtained through the money markets, carried out through one of our four brokers, and from other LA's.

The Councils operational borrowing limit is £10 million.

##### **d) Insurance/guarantee facilities**

The Council Insurance Officer has arranged for cover for fraud conducted by authorised signatories and for the cash balances in our accounts. We are not covered for default by a third party for any of our investments as this is controlled through our credit rating policy.

##### **e) Other contingency arrangements.**

SSDC operates a Business Reserve Account with Santander Plc and Bank of Scotland, and five Instant Access Money Market Accounts, one with Deutsche, one with Invesco Aim, one with Blackrock, one with Prime Rate and one with Ignis. These are only utilised so long as they meet the minimum requirements in terms of credit ratings.

The Santander account allows for 5 withdrawals per month without penalty, to cover any identified shortfall with our bank accounts. The Bank of Scotland account is instant access and has unlimited withdrawals per month and no penalties. The Money Market Fund accounts with

Deutsche, Invesco Aim, Blackrock, Prime Rate and Ignis allow for same day withdrawal without penalty.

See TMP 1.8.2 for Bankline and other computer contingency arrangements.

### **1.3 INTEREST RATE**

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

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

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

At Council on 17<sup>th</sup> March 2011 members agreed to allow SSDC to have up to 100% invested in variable rate investments to cover against market fluctuations. There is reliance on the investment income receivable in maintaining a balanced revenue budget and therefore the long term strategy will be to maintain stability by having a significant amount invested in fixed rate of return investment instruments. Our tactical position is to utilise all of our investment streams and take advantage of economic changes as they arise.

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

SSDC has appointed the services of Arlingclose Ltd to act as our advisor and consultant on Treasury Management matters. Accordingly Council Officers will respond to their advice in respect of investment and economic forecasts. The Council has a strategy of mixing fixed rate investments with variable to ensure stability on the one hand and also to accept certain level of risk for return. This is reviewed both annually through the Strategy Statement and also quarterly via Treasury Management Activity Reports considered by the Audit Committee. Regular discussions are also carried out with Arlingclose Ltd. The Assistant Director – Finance and Corporate Services in consultation with the Assistant Director – Legal and Corporate Services



have delegated powers to buy and sell fixed rate investments to enable the Council to react quickly to interest rate changes and fluctuations.

### **1.3.3. Minimum/maximum proportions of variable rate debt/interest**

The maximum proportion of interest on borrowing that is subject to variable rate interest is 100%.

### **1.3.4. Minimum/maximum proportions of fixed rate debt/interest**

When economic conditions dictate, the Council's strategy is to have up to a maximum of 80% of its portfolio in fixed rate interest.

### **1.3.5. Policies concerning the use of financial derivatives and other instruments for interest rate management.**

#### **a) Forward dealing**

Forward deals may be carried out where forward interest rates become favourable – Arlingclose gives this information and advice to the Treasury Management Team.

Forward deals may also be carried out where the placement of funds when they mature is known to be a problem e.g. over the Christmas period.

#### **b) Callable deposits (fixed investments for up to 5 years at borrower's option)**

Callable deposits are used only after advice from Arlingclose and the Assistant Director – Finance and Corporate Services.

#### **c) LOBOs (borrowing under lender's option/borrower's option)**

LOBOs are not currently used at SSDC. The Finance, Legal and Spatial Planning Portfolio Holder will approve any use of LOBOS before being exercised.

## **1.4 EXCHANGE RATE**

**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 fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.**

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

- a) The Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.
  
- b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.
  
- c) It is recognised that foreign currency transactions are unlikely to be material.

## **1.5 CAPITAL FINANCING**

**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 Council as can reasonably be achieved in the light of market conditions prevailing at the time.**

**It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.**

### **1.5.1. Projected capital investment requirements**

The current capital strategy assumes that the capital programme will be financed through additional interest earned over budget as well as releasing new receipts to fund capital schemes. This will enable SSDC to be more proactive in dealing with the difficulties and unpredictability of funding that is likely to occur over the next few years.

### **1.5.2. Policy concerning limits on revenue consequences of capital financing.**

All Capital bids must outline the revenue consequences in terms of loss of interest and additional running costs etc through a Project Brief Appraisal Form. The Form also includes a statement of

Whole Life Costing for the project. All revenue consequences are fed into the medium term financial plan and are taken into account when projects are approved.

Any projects applying for “Save to Earn” funding have to show a robust business plan providing evidence that the revenue stream can be generated, sensitivity analysis, and comment on the risks involved.

## **1.6 LEGAL AND REGULATORY**

**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 *TMP 1.1 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 Council.**

### **1.6.1. References to relevant statutes and regulations**

Investments are made within the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting)(England) Regulations [SI 2004 No.534]. Reference to these statutes should be made if there is any doubt as to the legality of prospective transactions.

### **1.6.2. Procedures for evidencing the organisation’s powers/authorities to counterparties**

Counterparties are sent the appropriate report and minute giving the delegated authority of Assistant Director – Finance and Corporate Services and an authorised lending list if requested.

### **1.6.3. Required information from counterparties concerning their powers/authorities**

All counterparties are asked for a letter of confirmation once a lending deal is made. All counterparties are only used if on the approved list and meet minimum credit rating criteria.

## **1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT**

**The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends.**

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

In order to minimise instances of fraud, error and corruption, a number of procedures have been designed to protect both officers and third parties in the event of dispute. An overview of these procedures are listed below according to the type of investment. Any problems are to be reported to the Assistant Director – Finance and Corporate Services. All conversations relating to investments or borrowings are to be recorded, using the tape recorder situated on the Insurance and Accounting Technician's desk. This is in accordance with accepted procedures and best practice. These tapes are to be kept for 1 year from the last recording.

##### Money Market Investments

When setting up this type of deal, all conversations with brokers and when dealing directly are to be recorded. It is of paramount importance that all details of the deal are clearly understood by all parties in order to avoid entering into a deal which is different from that intended, and embarrassing and unnecessary awkward situations. Counterparties are only those on the authorised lending list.

When any deal confirmation is received it is to be checked immediately with relevant details in the file and on the TINVESTS spreadsheet. Any discrepancies are to be reported immediately. A copy of all correspondence relating to the deal is also to be kept on file.

The Money Market Brokers will only use the latest SSDC bank details given to them. They will only accept a change to those details if instructed on headed paper and signed by the Section 151 officer or Deputy Section 151 officers.

##### Santander Business Reserve Account

The procedure for making deposits into the Santander Business Reserve Account is broadly similar to that described above. Appropriate spreadsheets are to be completed.

##### Bank of Scotland Account

Funds are deposited into this account by CHAPS payment to the Bank of Scotland. When a withdrawal is to be made from the account, the procedure is the same for deposits, except that a withdrawal worksheet is to be completed and processed. At present there are no restrictions on the number of withdrawals nor is there any charge.

### Money Market Funds

SSDC currently has five money market funds (MMF) accounts, Deutsche, Invesco Aim, Blackrock Asset Management, Prime Rate and Ignis. Deposits and withdrawals are similar for all five funds. Initial contact is by phone, all conversations being recorded, giving amount to be deposited, account number and date of transaction. For deposits, a CHAPS form, the temporary investments worksheet and the control sheet are to be completed and processed as above.

When a withdrawal is to be made from the account, the procedure is the same for deposits, except that an MMF repurchase worksheet only is to be completed and processed. Appropriate spreadsheets are to be completed.

#### **1.7.2. Emergency and contingency planning arrangements**

In the event of the Natwest online banking website being unavailable or the internet at SSDC being down, the balance of both accounts held with Natwest would need to be sought from them via telephone. A Member of the Treasury Team would need to do this before placing any investments that day.

#### **1.7.3. Insurance cover details.**

The Council Insurance & Accounting Technician has arranged fidelity guarantee against loss of money as a result of fraud or dishonesty. We are not covered for default by a third party for any of our investments, as this is controlled through our credit rating policy.

## **1.8 MARKET VALUE OF INVESTMENTS**

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

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

The only in-house investments of the above type are EuroSterling Bonds issued by the EIB or UK government guaranteed bonds and debt instruments issued by banks/building societies, which are purchased on advice from Arlingclose with the intention to hold them to maturity.

The purchase or sale of such instruments can only be undertaken with the prior permission of the Assistant Director – Finance and Corporate Services following receipt of appropriate advice from Arlingclose.

### **1.8.2. Accounting for unrealized gains/losses**

The method of accounting for unrealised gains or losses on the valuation of financial assets comply with Accounting Code of Practice.

## **1.9 INFLATION RISK MANAGEMENT**

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

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

## **TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS**

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 organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements

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

The officer (Principal Accountant – Exchequer) authorises each day's transactions to show that she is satisfied with that day's transactions and that all of the necessary controls and documentation have been carried out. Other than daily and routine dealings, advice is sought from Arlingclose as necessary for other transactions.

Longer term decisions are made depending on economic forecasts and the effect the decision will make on the revenue income to the budget. At the present time the treasury management function contributes an annual sum of approximately £0.8m. This will depend on the strategy at the time, weighing up fixed term investments that will give certainty of return versus economic forecasts of future interest rates.

The Principal Accountant – Exchequer will arrange and chair monthly review meetings with all those involved in the Treasury Management function. Quarterly meetings are held between the Assistant Director – Finance and Corporate Services and Principal Accountant – Exchequer to review strategic treasury matters.

Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to Audit Committee on a quarterly basis.

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

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

Re-tendering should occur every three to five years if a Fund Manager is in place. Fund Managers should be sent a questionnaire and short listed for interview. The Assistant Director – Finance and Corporate Services, with support from Arlingclose, should conduct the interview.

### **2.2.2 Banking services**

Banking services should be reviewed, re-tendered or renegotiated every five years (with contract provisions to extend current service) to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

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

This organisation may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

### **2.2.4 Consultants'/advisers' services**

This organisation's policy is to appoint full-time professional treasury management consultants. Our current consultants are Arlingclose.

### **2.2.5 Policy on external managers**

a) The Organisation's policy is to appoint full-time professional cash/external investment fund managers and to comply with the Local Organisations (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

b) The delegation of investment management to external managers entails the following:

- Agreement of a formal contractual agreement and documentation;
- Agreement on terms for early termination of the contract;
- Setting of a benchmark and a performance target;
- Setting of investment counterparty constraints;
- Periodic reporting of performance;
- Periodic meetings with investment managers;
- Setting of other constraints/parameters/conditions:



The authority currently does not employ any fund managers.

- c) The Code of Practice places an obligation on the organisation to monitor the performance of the fund manager, if appointed.

### **2.2.6 Methods to be employed for measuring the performance of the organisation's treasury management activities**

The investment income is benchmarked and monitored against those benchmarks. The council's advisors, Arlingclose, measure the funds against the benchmark and their performance. Arlingclose also provides a quarterly report detailing their opinion of performance. A report of all investments is compiled and reported to the Assistant Director – Finance and Corporate Services each quarter.

## **2.3 BENCHMARKS AND CALCULATION METHODOLOGY**

### **2.3.1 Debt management**

Average rate on all external debt

### **2.3.2 Investment**

The performance of investment earnings will be measured against the following benchmarks: -

#### **a) In house investments**

7 day LIBID

#### **b) Cash fund manager(s)**

Not applicable

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

**The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.**

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

#### **3.1.1 Daily investment procedures and processes**

The daily banking procedures and steps to be carried out are held at operational level.

#### **3.1.2 Records to be kept**

##### **a) General records: -**

- a. Daily cash flow
- b. Daily banking
- c. Temporary investments
- d. Individual paper records of all investments made including correspondence from counterparties and brokers.
- e. Daily record of cash balances available for investment.
- f. Paper records of all CHAPS forms and other correspondence.
- g. Paper record of the Control worksheet from the TINVESTS spreadsheet to accompany each CHAPS, and one to be filed with investment details.
- h. Copies of any faxes, emails, letters or other correspondence relating to any other aspect of Treasury Management, eg changes in counterparty details, market reports and bulletins sent to the Council from Arlingclose.
- i. Minutes of Council meetings relating to Treasury Management issues.
- j. Monthly and quarterly reports from the external Fund Managers.

##### **b) Temporary Lending:-**

A Temporary Investment Worksheet.

- Control Worksheet
- Tape recording of all conversations with brokers and direct dealing institutions relating to temporary investments. The tapes are to be kept for a period of 1 year after the last recording.

A CHAPS form is to be completed, checked, and authorised. The CHAPS forms are available from Cashiers.

The Temporary Investments spreadsheet needs completion

### **3.1.3 Borrowing procedures and processes**

#### **a) General Records:-**

- a. Daily cash flow
- b. Daily banking
- c. Temporary loans
- d. Individual paper records of all loans including correspondence from counterparties and brokers.
- e. Daily record of cash balances available for investment.
- f. Paper records of all CHAPS forms, confirmations and other correspondence.

#### **b) Temporary Borrowing**

Temporary borrowing is conducted through the money markets via the authorised brokers above. Unlike investments, there is no authorised list of institutions from whom we can borrow. The process is, in principle, the same as that for temporary investments, with the exception that the CHAPS form is processed on the day the principal plus interest is returned to the counterparty.

A Temporary Loan Worksheet – can be found in the Daily Banking File

### **3.1.4 Issues to be addressed.**

#### ***3.1.4.1 In respect of every decision made SSDC will:***

- a) above all be clear about the nature and extent of the risks to which SSDC may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) Be content that the documentation is adequate both to deliver SSDC's objectives and protect the organisation's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the SSDC's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

#### ***3.1.4.2 In respect of borrowing and other funding decisions, SSDC will:***

- a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- d) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

**3.1.4.3 In respect of investment decisions, SSDC will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.
- c) The above issues will be addressed with reference to Council policy and strategy and after considering the advice provided by the Council's treasury advisors, Arlingclose.

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

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

### **4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION**

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Organisation’s capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Superannuation Fund).
- managing the underlying exchange rate risk associated with the Organisation’s business activities.

### **4.2 APPROVED INSTRUMENTS FOR INVESTMENTS**

The Council will determine through its Annual Investment Strategy which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorized as ‘Specified’ or ‘Non Specified’ based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended)

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

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

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●

Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Bank Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

**Other Methods of Financing**

Government and EC Capital Grants

Lottery monies

PFI

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Assistant Director – Finance and Corporate Services in consultation with the Assistant Director – Legal and Corporate Services has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

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

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

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

**If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the 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 arrangement 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 to this document.**

**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 to this document.**

**The delegation to the responsible officer in respect of treasury management is set out in the schedule to this document. 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.**

## **5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE LEVELS**

### **Council**

- a) Receiving and reviewing reports on treasury management policies, practices and activities.
- b) Receiving and reviewing Prudential Indicators as part of the budget setting process
- c) Budget consideration and approval.

### **Audit Committee**

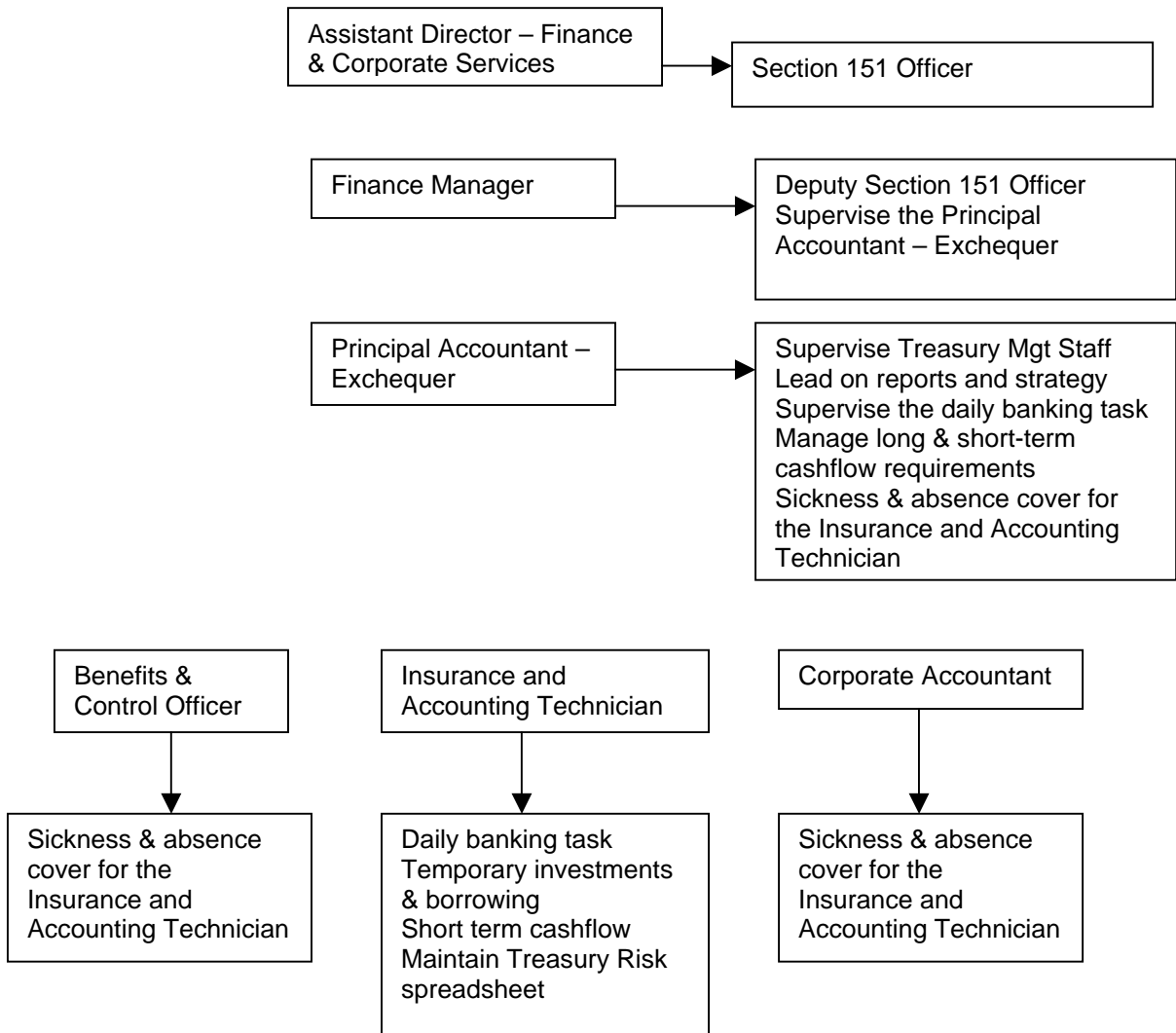
- a) Approval of amendments to the organisation's adopted clauses and treasury management policy statement and treasury management practices.
- b) Approval of annual report on Treasury Management
- c) Budget consideration and amendments.
- d) Approval of the decision of responsibilities
- e) Receiving and reviewing external audit reports and acting on recommendations
- f) Approving the selection of external service providers and agreeing terms of appointment
- g) Approval of amendments to Treasury Management Procedures
- h) Overview of Treasury Management function

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

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



### 5.3 TREASURY MANAGEMENT ORGANISATION CHART



## **5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST**

### **5.4.1. Assistant Director – Finance & Corporate Service**

1. The Assistant Director – Finance and Corporate Service will:
  - a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
  - b) Determining Prudential Indicators and Treasury Management Strategy including the Annual Investment 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, and liaising with external audit
  - i) Recommend the appointment of external service providers.
- 2 The Assistant Director – Finance & Corporate Services has delegated powers in consultation with the Assistant Director – Legal & Corporate Services 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.
- 3 The Assistant Director – Finance & Corporate Services may delegate her power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant – Exchequer, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the Assistant Director – Finance & Corporate Services to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- 4 The Assistant Director – Finance & Corporate Services and the Assistant Director – Legal & Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Assistant Director – Finance & Corporate Services to be satisfied, by reference to the Monitoring Officer (Assistant Director – Legal & Corporate Services), the

Organisation's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation's Financial Regulations

- 6 It is also the responsibility of the Assistant Director – Finance & Corporate Services to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

#### **5.4.2 Principal Accountant – Exchequer**

The responsibilities of this post will be:-

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

#### **5.4.3 Chief Executive Officer**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Assistant Director – Finance & Corporate Services reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

#### **5.4.4 Monitoring Officer**

The responsibilities of this post will be: -

- a) Ensuring compliance by the Assistant Director – Finance & Corporate Services 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 Assistant Director – Finance & Corporate Services when advice is sought.

#### **5.4.5 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.

#### **5.5 ABSENCE COVER ARRANGEMENTS**

In the absence of the Assistant Director – Finance & Corporate Services, the Finance Manager shall take on board the responsibilities and duties of the Assistant Director – Finance & Corporate Services.

Under the supervision of the Principal Accountant – Exchequer, the general day to day activities shall be undertaken by the Insurance and Accounting Technician. However this may be from time to time passed onto the Benefits & Control Officer or the Corporate Accountant

In the absence of the Principal Accountant - Exchequer her responsibilities and duties will be undertaken by the Finance Manager or the Assistant Director – Finance & Corporate Services (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

#### **5.6 DEALING LIMITS**

Currently there is a £5m 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 £5m limit will be referred back to the Treasury team for explanation.

#### **5.7 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

## **5.8 POLICY ON BROKERS' SERVICES**

The treasury function has always maintained a good relationship with four brokers. This has been deemed adequate for the size and number of market transactions conducted by the Council whilst simultaneously ensuring there is sufficient spread to ensure that the best deals are being struck. Any changes to the list of approved brokers will not be made without prior consultation to with the Assistant Director – Finance & Corporate Services.

## **5.9 POLICY ON TAPING OF CONVERSATIONS**

In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The cassette tapes are to be kept for a period of one year from the last recording.

## **5.10 DIRECT DEALING PRACTICES**

The following institutions form the approved list for direct dealing:

- Santander UK PLC
- Barclays Bank
- Bank of Scotland PLC
- Lloyds TSB
- National Australia Bank
- Nordea
- DMADF
- ING
- Svenska Handelsbanken
- Rabobank

No changes to this list will be made without prior consultation with the Assistant Director - Finance & Corporate Services.

## **5.11 SETTLEMENT TRANSMISSION PROCEDURES**

The preferred method of transmitting information relating to all deals is by FAX. Alternative methods are Royal Mail and email.

## **5.12 DOCUMENTATION REQUIREMENTS**

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

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

The following funds are managed by South Somerset District Council:

- Joint Burial Committee
- Dorcas House Trust
- SWAP
- ACI Chard Regeneration Scheme

However, there are still 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**

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

As a minimum, Full Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

The Audit Committee will receive regular monitoring reports on treasury management activities and risks

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

### **6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT AND THE ANNUAL INVESTMENT STRATEGY AND THE MRP STRATEGY**

1. The Treasury Management Strategy Statement, together with the Annual Investment Strategy, sets out the specific expected treasury activities for the forthcoming financial year. These Strategies are to be submitted to Council for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy is concerned with the following elements:

- the prospects for interest rates;
  - the limits placed by this organisation on treasury activities
  - the expected borrowing strategy;
  - the expected temporary investment strategy (including the appointment of fund managers);
  - the expectations for debt rescheduling;
  - any extraordinary treasury issue (such as the implications of a LSVT or housing company setup).
4. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.
5. In accordance with the guidance issued under section 15(1)(a) of the Local Government Act 2003, the Council must publish its Annual Investment Strategy. This document sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
6. The Annual Investment Strategy states:-
- The procedures for determining the use of each asset class, particularly if the investment falls under the category of **non-specified investment**;
  - The maximum periods for which funds may be prudently committed in each asset class;
  - The % limit to be invested in each asset class;
  - Whether the investment instrument is to be used by the Council's in-house officers and/or the appointed external fund managers;
  - The minimum amount to be held in short-term investments.
7. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. It is therefore necessary for Council to approve a statement of the authority's MRP policy for 2010/11.

## **6.2 POLICY ON INTEREST RATE EXPOSURE**

1. As required by section 3 of the Local Government Act 2003, the Council must approve before the beginning of each financial year the following borrowing limits:



- the overall borrowing limit £12,000,000
- the amount of the overall borrowing limit £10,000,000  
which may be outstanding by way of short  
term borrowing

2. The Assistant Director – Finance & Corporate Services is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Assistant Director – Finance & Corporate Services shall submit the changes for approval to the Audit Committee before submission to the full Council for approval.

### **6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY**

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

- a. a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- b. transactions executed and their revenue (current) effects
- c. report on risk implications of decisions taken and transactions executed
- d. monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- e. monitoring of compliance with powers delegated to officers
- f. degree of compliance with the original strategy and explanation of deviations
- g. explanation of future impact of decisions taken on the organisation
- h. measurements of performance
- i. report on compliance with CIPFA Code recommendations

### **6.4 MID YEAR TREASURY REPORT**

A mid year report will be produced for Audit Committee on the borrowing and investment activities of the treasury management function for the first six months of the financial year. This report will then be recommended to Full Council. This report will include the following: -

- a. Economic forecast
- b. Treasury Management Strategy Statement update
- c. Performance versus benchmarks
- d. Information on investments

e. Prudential indicators relating to treasury management

## **6.5 MANAGEMENT INFORMATION REPORTS**

Management information reports will be prepared every month by the Principal Accountant – Exchequer and will be presented to the Assistant Director – Finance & Corporate Services

These reports will contain the following information: -

- Fund Manager returns, including value of fund, interest, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
- Information on investment in Eurobonds.
- 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.
- Forecast of surplus/deficit for the financial year against budget.
- Narrative highlighting any areas of concern or areas of note.

## **6.6 PERIODIC MONITORING COMMITTEE REPORTS**

Treasury Management Activity and Performance will be reported quarterly to the Audit Committee.

Treasury Management surpluses and deficits are reported to Management Board monthly and District Executive quarterly as part of the overall budget monitoring process.

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

The responsible officer will prepare, and the organisation will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will, at a minimum, be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 “Risk Management”, TMP2 “Performance Measurement”, and TMP4 “Approved Instruments, Methods and Techniques”. The form that this organisation’s budget will take is set out in the schedule to this document. 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 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.

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

The framework for accounting in local government in the UK comes from the Code of Practice on Local Authority Accounting in Great Britain, A Statement of Recommended Practice (SORP), and guidance issued by CIPFA.

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

- CIPFA Code of Practice
- Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice (SORP)
- Treasury Management Policy and Practices
- Council’s Statement of Accounts
- SSDC Financial Procedure Rules

### **7.3 BUDGET AND ACCOUNTS INFORMATION**

Budget monitoring is carried out and reported to Management Board on a monthly basis and District Executive on a quarterly basis.

### **7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS.**

#### **a) Fund Managers**

- Valuation of fund as at the 31<sup>st</sup> March each year.
- Two interim valuations from the year
- Monitoring spreadsheets
- Sample report to the Assistant Director – Finance & Corporate Services
- Cedar print of valuation in the Statement of Accounts
- Proof that non-approved investments have been financed through the capital programme

#### **b) In-house Investments**

- Spreadsheets and reconciliation of all investments capital sums and interest
- Cedar screen print of outstanding investments as at 31<sup>st</sup> March
- Sample of paperwork to show proper documentation of deals

#### **c) Borrowing**

- Spreadsheets and reconciliation of all borrowing capital sums and interest
- Cedar screen print of outstanding borrowing as at 31<sup>st</sup> March
- Sample of paperwork to show proper documentation of deals
- Loan Certificates

#### **d) Supranational Bonds**

- Details of bonds held
- Reconciliation of interest and capital sums
- Regular faxes from custodian

#### **e) Bank Accounts & Reserve Accounts**

- Monthly reconciliation
- Bank statements
- Bank certificates

## **TMP 8 CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the 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 below.

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

The Principal Accountant – Exchequer prepares the monthly cash flow statement and oversees the Insurance and Accounting Technician’s preparation of the daily cash flow statement. Information from both statements is then used to plan investments. The forecasts should be maintained for a minimum of six months ahead.

The Principal Accountant – Exchequer also prepares a long-term cash flow forecast covering the current financial year and the next three financial years.

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

Daily for major items of cash flow over £20,000 and monthly to take into account creditors, debtors etc. to show a longer term cash flow.

### **8.3 LISTING OF SOURCES OF INFORMATION**

The treasury function receives cash flow information for the following:-

Government information eg NNDR/RSG 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

### **8.4 BANK STATEMENTS PROCEDURES**

Bank statements are received daily and reconciled to the ledger by the Management Accountant.

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

Major payments to creditors are pre-arranged and usually bypass the normal creditors cheque 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 creditors supplier terms, this is in line with the prompt payment code we have signed up to.

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

Debtors are managed by the Exchequer Services team and reported annually for external purposes and more regularly for internal management information. Creditors are monitored monthly and reported to monitor target payment dates as part of the Finance Service Standards.

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

Cash and cheques are received daily in the Incomes Team and are collected daily by Loomis for secure delivery to the bank.

#### **8.8 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS**

Payments received in advance by debtors are credited to their respective account. No interest or discount is given for early settlement.

## **TMP 9 MONEY LAUNDERING**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will 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 below.

### **9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS**

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. It will ensure that staff involved in this area are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

SSDC does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk)).

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2007 (SI 2007 number 2157), which replaced the Money Laundering Regulations 2003 (SI 2003 number 3075) with effect from 15 December 2007, (except through this TMP), the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

Suspicion of any money laundering activity, fraud or use of the proceeds of crime is to be report to the Money Laundering Reporting Officer (MLRO), currently the Assistant Director – Finance & Corporate Services.

### **9.2 METHODOLOGY FOR IDENTIFYING SOURCES OF DEPOSIT.**

As with loans above, the authority for institutions to receive deposits from the Council is derived from the organizations appearance on a list of approved sources produced by the FSA. An entry

on the list is a demonstration of the organisations suitability to accept deposit subject to appropriate credit screening.



## **TMP 10 STAFF TRAINING AND QUALIFICATIONS**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements. The present arrangements are detailed in the schedule to this document.

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.

### **10.1 DETAILS OF APPROVED TRAINING COURSES**

As yet no courses have been designated as 'approved' for the purposes of determining qualification to work within Treasury Management. All courses offered by colleges, independent organisations shall be judged on their respective merits and relevance to the needs of the Financial Services Unit.

### **10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF**

Individual Personal Development Plans are held, and contain details of training, courses and seminars undertaken by an officer. However, in general several officers to date have received training via the following arrangements:

- As part of their professional accountancy qualification
- Lectures and seminars provided by external agencies, e.g. Arlingclose, subject to the provisions of 10.1 above.
- Relevant technical and professional journals.

### **10.3 CAREER DEVELOPMENT / SUCCESSION ARRANGEMENTS**

All officers are encouraged to develop their respective careers and those who are qualified accountants have an obligation towards Continuous Professional Development (CPD). This

Council also has a policy of continuous Staff Development Reviews. This is an opportunity for the review of development needs and targets.

#### **10.4 APPROVED QUALIFICATIONS FOR TREASURY STAFF**

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

#### **10.5 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)**

1. There is a professional need for the Assistant Director – Finance & Corporate Services to be a member of a CCAB body and to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staffs are appropriately trained.
2. Other staff involved in treasury management activities who are members of a CCAB body must also comply with the SOPP.

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

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 that have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out below.

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

#### **11.1.1 Banking services**

- a) Service provided by: National Westminster Bank plc
- b) Contract commenced 1/7/11 and runs for 3 years until 30/6/14.
- c) Cost of service as per the contract in 10/11 £39,833
- d) Payments due quarterly in arrears and monthly for the electronic banking service.
- e) 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.

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

Providers of service:-

Martin Brokers (UK) plc  
Prebon Yamane  
London Currency Brokers  
Tradition UK

#### **11.1.3 Cash/fund management services**

None

#### **11.1.4 Consultants'/advisers' services**

- a) Name of supplier of service – Arlingclose Ltd.
- b) Contract commenced 1 March 2010 and expires upon 28<sup>th</sup> February 2013, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- c) Cost of service £25,500 per annum – increasing by 5% plus VAT
- d) Payments due annually on 1 April
- e) Terms for early termination of the contract:  
The Council may terminate the agreement by giving three months notice after 28th February 2013.

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

See TMP2

## **TMP 12 CORPORATE GOVERNANCE**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

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

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

- Treasury Management Strategy
- Treasury Management Practices
- Statement of Accounts
- Council Committee Agendas and Minutes
- Budget Book

### **12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS.**

The Council carries out public consultation annually as part of its budget process.