

AUDIT COMMITTEE

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TREASURY MANAGEMENT POLICY AND PRACTICES

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

PS418: Treasury Management Informal Scrutiny Group, 12 July 2010

[CAB2284](#): Treasury Management Strategy 2012/13 and 2011/12 Revision, 8 February 2012

EXECUTIVE SUMMARY:

The Treasury Management Strategy was approved by the Council in February. This requires that the Council has adopted suitable Treasury Management Policy and Practices. The Audit Committee has responsibility for the scrutiny of treasury management policies and practices.

The Treasury Management Policy and Practices have been fully reviewed and updated in line with the relevant guidance. Some changes have been made to expand some of the sections in order to clarify procedures.

It has also now been possible to address the issue of separation of duties between dealing the transmission of funds and the recording and administering of treasury management decisions (as recommended in the CIPFA guidance), and this is reflected in TMP5. (This was identified as an action in PS418 – for which all recommendations have now been implemented).

The updated Treasury Management Policy and Practices are appended in full to this report.

RECOMMENDATION:

That the Audit Committee considers the attached Treasury Management Policy and Practices and raises any matters for further consideration with the Head of Finance.

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## 1. Introduction

- 1.1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code. The Council has adopted treasury management practices setting out the manner in which it seeks to achieve the treasury management policies and objectives, and prescribing how it manages and controls those activities.
  
- 1.2. The treasury management service is an important part of the overall financial management of the Council's affairs. The investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets a balanced budget requirement under the Local Government Finance Act 1992.

## 2. Treasury Management Policy Statement

2.1. The Council defines its treasury management activities as:

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

- 2.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
- 2.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management
- 2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations

## 3. Treasury Management Practices

Treasury Management Practices are included in the Treasury Management Procedures and cover:

TMP1	Risk Management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

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## ***TMP1 – Risk Management***

The Head of Finance 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 below.

### 1. Credit and Counterparty Risk management

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

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with 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 included in that 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 other financing arrangements.

The current criteria for selecting counterparties are contained in the annual treasury management strategy [CAB2284](#). The Council operates a policy of diversification in the organisations it deals with for borrowing and investment in order to avoid over reliance on a small number of third parties. The standing and status of these third parties is kept under continuous review with professional advisors

### 2. Liquidity Risk Management

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

The Head of Finance will ensure that it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to

enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives.

The Council will maintain an effective cash and cashflow forecasting and monitoring system that will identify the extent to which the Council is exposed to the effects of potential cashflow variations and shortfalls. The principles of this system are set out in *TMP8 – Cash and Cashflow Management*.

### 3. Interest Rate Risk management

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

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*.

It 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 to take advantage of expected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council will have regard to professional advice on the likely future course of interest rates to enable it to assess the extent to which movements in these may impact on the Council. Appropriate procedures are built into the Council's budget processes to enable this to happen and commentary will be included in the annual treasury management strategy.

### 4. Exchange Rate Risk management

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

The Council will manage its exposure to fluctuations in exchange rates so as to minimize any detrimental impact on its budgeted income/expenditure levels. Council policy is to conduct its affairs in sterling, thereby avoiding any exposure to exchange rate fluctuations.

## 5. Refinancing Risk management

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

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.

The Council 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.

## 6. Legal and Regulatory Risk management

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

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 *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 reasonable to do so, will seek to minimise the risk of these impacting adversely on the Council.

## 7. Fraud, Error and Corruption, and Contingency Management

The risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in 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 commonly referred to as operational risk.



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.

## 8. Market Risk management

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

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.

## *TMP2 – Performance measurement*

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

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council’s stated business and 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 the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule below.

<p>Policy concerning methods for performance measurement</p>	<ul style="list-style-type: none"> <li>• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council’s Prudential Indicators and to enhance accountability.</li> <li>• Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</li> <li>• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council’s agreed strategy, i.e. the Council will avoid hindsight analysis.</li> </ul> <p>Any comparison of the Council’s treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:</p> <ul style="list-style-type: none"> <li>(i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and</li> <li>(ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.</li> </ul> <p>In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>
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<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of reports to the Audit Committee.</p> <p>The year-end Annual Treasury Stewardship Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Council is a member of CIPFA benchmarking club. The club enables comparison of performance with other authorities for its treasury activity. Data is provided by the Council annually for comparison.</p> <p>The Council's Treasury Management advisors review the existing debt portfolio regularly and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.</p> <p>The Council's Treasury Management advisors compare the performance of the Council's in-house funds against funds managed on a similar basis in the local authority fund manager peer group.</p>
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<p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p>	<p>Treasury management activity is reviewed half yearly against strategy and prevailing economic and market conditions through the Treasury Management Mid –Year Review and the Stewardship Report to the Audit Committee.</p> <p>The reports will include:</p> <ol style="list-style-type: none"> <li>a) Total debt including average rate and maturity profile</li> <li>b) The effect of new borrowing and/or maturities on the above</li> <li>c) The effect of any debt restructuring on the debt portfolio</li> <li>d) Total investments including average rate, credit and maturity profile</li> <li>e) The effect of new investments/redemptions/maturities on the above</li> <li>f) The rate of return on investments against their indices for internally and externally managed funds</li> <li>g) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)</li> <li>h) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.</li> <li>i) Daily bank balances: any major deviations from the target bank balances</li> </ol>
<p>Benchmarks and calculation methodology with regard to risk and return</p>	<p><b>Investment returns</b> are compared to base rate.</p> <ul style="list-style-type: none"> <li>• Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.</li> </ul> <p><b>Debt Management</b></p> <ul style="list-style-type: none"> <li>▪ Average Rate on all external debt</li> <li>▪ Average Rate on external debt borrowed in financial year</li> <li>▪ Average Rate on internal borrowing</li> <li>▪ Average period to maturity of external debt</li> <li>▪ Average period to maturity of new loans in financial year</li> <li>▪ Ratio of PWLB and market debt (beginning and end of period)</li> <li>▪ Ratio of fixed and variable rate debt (beginning and end of period)</li> </ul>

## *TMP3 – Decision-making and analysis*

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

<p>Major treasury decisions</p>	<p>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:</p> <ul style="list-style-type: none"> <li>a) Changes to Prudential Indicator(s) during the course of the financial year</li> <li>b) Options Appraisal to determine a funding decision</li> <li>c) raising a new long-term loan / long-term source of finance</li> <li>d) prematurely restructuring/redeeming an existing long-term loan(s)</li> <li>d) investing longer-term (i.e. in excess of 1 year)</li> <li>f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate)</li> <li>g) leasing</li> <li>h) change in banking arrangements</li> <li>i) appointing/replacing a treasury advisor</li> <li>j) appointing/replacing a fund manager</li> <li>k) any other determined by the Council</li> </ul>
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<p>Process</p>	<p>The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>Based on the Annual Treasury Management Strategy, the Principal Financial Accountant will prepare regular <u>12</u> month rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:</p> <ul style="list-style-type: none"> <li>• applying the strategy on a day to day basis</li> <li>• monitoring the results of the strategy</li> <li>• recommending amendments to the strategy to the Audit Committee where applicable during the course of the year.</li> </ul>
<p>Delegated powers for treasury management</p>	<p>The Head of Finance has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.</p>

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



## ***TMP4 – Approved Instruments, Methods and Techniques***

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

### **SCHEDULE**

#### **1 Approved Borrowing Instruments**

The following list specifies which borrowing instruments can be adopted:-

- Public Works Loan Board
- Local Authorities
- Commercial Banks
- European Investment Bank
- Money Markets
- Capital Markets (stock issues, commercial paper and bills)
- Structured Finance
- Leasing
- Overdraft
- Internal (capital receipts and revenue balances)

*All the above forms of funding may be considered, depending on the prevailing economic climate, regulations and local considerations. The Head of Finance shall have delegated powers to take the most appropriate form of borrowing from the approved sources.*

*Should new instruments become available or should the Council consider using an instrument for the first time, the tests of legality, objectivity, suitability, risks, costs and status of counterparty will be applied before Council approval is sought to their use.*

## **2 Approved Methods and Techniques**

The range of approved methods to be used in the process of treasury management shall include trained internal staff resources and advice from authorised consultants, brokers and bankers.

Internal staff resources will maintain relevant skills through appropriate training and CPD (Continuing Professional Development) activities.

The use of authorised treasury management consultants, authorised brokers and banking facilities will be subject to periodic market testing and competency standards.

No novel techniques will be introduced without full evaluation and an assessment of all consequences for the Council.

## **2 Approved Organisations for the Investment of Council Funds**

The Council will determine through its Annual Investment Strategy which instruments it will use giving priority to security and liquidity (in that order) of its invested monies. The investments will be categorised as “specified” or “non-specified” based on the criteria set out by DCLG in its investment guidance March 2004 (as amended).

The approved organisations for investment are contained in the counterparty list which is maintained, constantly reviewed and updated by our treasury management consultants

## ***TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements***

This 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 Head of Finance 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 Head of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The present arrangements are detailed in the schedule below.

The Head of Finance will ensure that 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 Head of Finance in respect of treasury management are set out in the Council's Constitution. The Head of Finance will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs, and if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

## ***TMP5- Organisation, clarity and segregation of responsibilities, and dealing arrangements -SCHEDULE of RESPONSIBILITIES***

### ***Head of Finance***

Approve changes to Treasury Management Policy Statement for presentation to Audit Committee  
Approve annual Treasury Management Strategy for presentation to Cabinet  
Approve mid-year monitoring Report for presentation to Audit Committee  
Approve annual Stewardship Report for presentation to Audit Committee  
Advise Performance Management Team of treasury management activities in regular reports  
Approve changes to investment counterparty list  
Approve internal scheme of management  
Approve banking contract details  
Ensure treasury management review is in audit plan

### ***Principal Financial Accountant***

Review annually and revise as necessary the Treasury Management Policy Statement  
Prepare annual Treasury Management Strategy  
Prepare mid-year monitoring Report  
Prepare annual Stewardship Report  
Prepare monthly actual and forecast reports to the Head of Finance  
Liaise with TM advisors on strategic issues  
Liaise with bank on contract matters  
Ensure treasury management staff numbers are adequate and properly trained  
Review internal scheme of management annually  
Review banking contract periodically  
Monitor treasury management performance through monthly reports to Head of Finance  
Authorise bank (all)/cash/investment balance sheet reconciliations monthly  
Develop, implement and maintain performance measures  
Develop and maintain cash flow model for forecasting

### ***Financial Accountant***

Regular liaison with TM advisors  
Review investment counterparty list with TM advisors and advise HoF/PFA of changes  
Verify Counterparty identity  
Prepare weekly cash flow and forecast transactions report  
Prepare daily cash requirement  
Prepare Monthly monitoring reports for PMT  
Take daily dealing decisions consistent with counter party list and Treasury Management Strategy  
Maintain register of borrowing and investment activity  
Reconcile bank (Drawings) balance sheet account monthly  
Maintain drawings account  
Liaise with bank on day-to-day matters  
Manage and monitor company credit cards

# Treasury Management Policy & Practices

## ***Technical Accountant***

Reconcile Cash / Investment balance sheet accounts monthly

## ***Exchequer***

Transmit funds to counterparties

## ***TMP6 – Reporting requirements and management information arrangements***

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

As a minimum,

the Council will receive:

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

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

Treasury management indicators as detailed in CIPFA Treasury Management Guidance Notes for Local Authorities will be the basis for reporting.

The present arrangements for these reports are detailed in the schedule to this document.

## SCHEDULE

- The Treasury Management Strategy Report for the ensuing financial year will be considered by Cabinet and (timescales permitting) Audit Committee in advance of being presented to Council for approval, prior to the commencement of the new financial year.
- The Treasury Mid-Year Review Report will be considered by Audit Committee for approval, usually in December of the year under review
- The Treasury Management Stewardship Report will be considered by Audit Committee for approval, before the end of September each year following the year being reported upon.
- Monthly Treasury Management monitoring reports will be considered by the Performance Management Team and the Portfolio Holder to outline investments made and to provide assurance that appropriate procedures have been followed.
- The Portfolio Holder will be notified if the Council's investment practices are to be varied significantly within the parameters set by the Treasury Management Strategy.
- Any ad hoc treasury management reports required under the Code of Practice will be reported to the relevant Committee at the earliest opportunity.
- A monthly transactions report will be considered by the Head of Finance.

## ***TMP7 – Budgeting, accounting and audit arrangements***

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

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

Internal Audit generally conducts an annual review of the treasury management function and probity testing. The internal auditors will be given access to treasury management information / documentation as required by them.



## ***TMP8 – Cash and Cash Flow Management***

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this 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 Head of Finance will ensure that these are adequate for the purpose of monitoring compliance with TMP1[1] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule below.

### SCHEDULE

1. The Council's cash balances are monitored in order to ensure that demand for cash can always be met and that large cash balances are used effectively.
2. A cashflow schedule is kept of expected significant bank transactions and shows receipts and payments on the Council's Drawings, General and Community Charge bank accounts.
3. Bank balances are extracted from Natwest Bankline on a daily basis. Net surplus balances for investment will be invested with approved organisations and timed to be repaid to coincide with large payments out. The limit on the amount to be invested with any individual borrower will be observed. Similarly, if borrowing is necessary, repayment dates will coincide with expected income flows.
4. After the day's business has been completed if the Drawings account is near to £1m overdrawn, or will be after transactions on the day, a transfer between the accounts will be done using Natwest Bankline.
5. The Financial Accountant will input the necessary transactions to the Treasury Management Register spreadsheet (accountancy/accountancy/accounts/Treasury Management/Register/*relevant year*) produce and code the necessary paperwork to pass on to Exchequer for transmission of funds and posting to the ledger. The following monthly ledger balance sheet reconciliations will be produce, investments/cash (Technical Accountant) /bank drawings (Financial Accountant), /Bank Income (Exchequer Manager) which will be authorised by the Principal Financial Accountant.

## ***TMP9 – Money laundering***

This 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 are outlined below:

### **Structure of the TMP**

Since the topic of money laundering is quite wide and complex this TMP has been structured in the following way:

- Background legislation – This outlines the different statutory requirements applying to local authorities.
- Requirements of the legislation – This introduces the individual elements of the legislation the Council will need to consider.
- Schedules – This provides a procedure note to prompt consideration of each of the areas above.

### **Background Legislation**

There are several Acts of Parliament and the FSA has also made provisions relating to money laundering, with the main legislation being contained in the Criminal Justice Act 1993 (which contains the provisions to implement the EU Money Laundering Directive).

The current regulations are contained in the Money Laundering Regulations 2007 (SI 2007/2157)

[http://www.opsi.gov.uk/si/si2007/pdf/uksi\\_20072157\\_en.pdf](http://www.opsi.gov.uk/si/si2007/pdf/uksi_20072157_en.pdf)

and this Statutory Instrument, the [Terrorism Act 2000](#) and the [Proceeds of Crime Act 2002](#) cover the main compliance requirements.

The key requirements of this legislation cover an area wider than the fairly narrow treasury management function, including possessing, or in any way dealing with, or concealing, the proceeds of any crime.

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2007 (except through this TMP), the implications of the Terrorism Act 2000 and The Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

### ***Outline of the Requirements of the Regulations and Statutes***

- 1) **Customer due diligence** (SI 2007/2157 Money Laundering Regulations part 2)–

#### **Meaning of customer due diligence measures**

“Customer due diligence measures” means—

- (a) identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source;
- (b) identifying, where there is a beneficial owner who is not the customer, the beneficial owner and taking adequate measures, on a risk-sensitive basis, to

verify his identity so that the relevant person is satisfied that he knows who the beneficial owner is, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement; and

(c) obtaining information on the purpose and intended nature of the business relationship.

2) In these instances there is a requirement to:

- a). Set up and maintain identification procedures to ensure the counterparty produces satisfactory evidence of identity;
- b). Follow the procedures to ensure the counterparty provides satisfactory evidence.

3. These procedures should reflect:

- a). The greater potential for money laundering if the counterparty is not physically present when being identified,
- b). If satisfactory evidence is not obtained the relationship or transaction does not proceed,
- c). If the counterparty acts, or appears to act, for another person, reasonable measures must be taken for the purpose of identifying that person.

4. The primary exception to this requirement is if the counterparty carries on FSA regulated business in the UK (or comparable or by overseas regulatory authority) it is not necessary to obtain evidence. In this case most treasury transactions will be undertaken with or via relevant businesses, although there may be isolated exceptions such as the Post Office.

5. **Record keeping procedures** (Money Laundering part 3) – The Council must maintain procedures covering the retention of records. To ensure compliance, records are required to be kept for 5 years after the end of the transaction or relationship.

6. **Policies & procedures** (Money Laundering part 3 para 20) – The Council must maintain internal reporting procedures which document:

- a). The “nominated officer” who will be the Money Laundering Reporting Officer (MLRO) who will receive nominations under this regulation;
- b). The process by which any other person in the organisation receiving information which may result in them having reasonable grounds for knowing or suspecting money laundering, fraud or use of the proceeds of crime can report this to the MLRO;
- c). The process by which the MLRO on receiving a disclosure considers, in the light of all information, whether it gives rise to such knowledge or suspicion
- d) anyone in the organisation to whom information or other matter comes in the course of the business as a result of which he knows or suspects or has reasonable grounds for knowing or suspecting that a person is engaged in money laundering or terrorist financing is required to comply with Part 7 of the Proceeds of Crime Act 2002 or, as the case may be, Part 3 of the Terrorism Act 2000; and
- e). where a disclosure is made to the MLRO, he must consider it in the light of any relevant information which is available to the relevant person and determine whether it gives rise to knowledge or suspicion or reasonable

grounds for knowledge or suspicion that a person is engaged in money laundering or terrorist financing.

7. **Training** (Money Laundering Regulation Part 3 para 21)) – The Council should take appropriate measures to ensure that relevant employees are:
- a). made aware of the law relating to money laundering and terrorist financing; and
  - b). regularly given training in how to recognise and deal with transactions and other activities which may be related to money laundering or terrorist financing

## Schedules Addressing this Council's Compliance

In order to address these requirements the Council has set up the following procedures:

1. **Training** – Through this document and specific training, staff will be kept aware of developments in money laundering regulations and the appropriate staff are encouraged to keep abreast of money laundering issues through publications and the internet. The MLRO will be required to attend specific professional courses on money laundering developments to ensure local knowledge is kept up to date.
2. **Material and regular deposits or borrowing** - For all investment or borrowing counterparties, the Council will ensure that the counterparty has been suitably identified. This will take the form of:
  - a). **Investment Counterparties** – All investment counterparties which are maintained on the Council's lending list should be a deposit taker authorised by a regulatory body (e.g. the FSA {check via [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register)}). As such the identification procedures usually required above do not apply since the institution carries out relevant business in the UK. Those counterparties not authorised as a deposit taker through the FSA which are institutions, such as the Bank of England or Post Office, are not required to be the subject of stringent identification procedures, but the Council will review these on a case by case basis.
  - b). **Borrowing Counterparties** – All borrowing counterparties are dealt with through either of the following routes:
    - i). **Via Money brokers** – In this instance Money Laundering Regulations (13.1.A) applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK. However even when dealing via a broker it is the council's responsibility to verify the counterparty, not the broker's; or
    - ii). **Direct dealing** – In this instance the Council uses only recognised names, ones with credit ratings and to which the Council has reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions (such as Bank of England or Post Office), the nature of their business does not require stringent identification procedures, but the council will undertake procedures to "know the counterparty".
3. **Identification** - if any treasury investment counterparties are not known to the Council the Financial Accountant will ensure identification of the counterparty

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

4. **Small or irregular treasury deposits** – If at any time the Council is minded to accept deposits from local institutions or individuals, in these circumstances the Council will require and copy identification of the institution's contact officer or individual and the Council will take such steps that are reasonable to ensure the activities and operations of the counterparty are appropriate. The identification process and documentation will be held with the information relating to the transaction. In the event that identification is inadequate or not forthcoming the Council will not deal with that institution or individual.
5. **Reporting** - Appoint a "nominated officer", the MLRO, who is nominated to receive disclosures under this regulation. The MLRO for this council is the Internal Audit Manager. Any concern of a transaction possibly being linked to either money laundering, the proceeds of crime or is to be used for terrorism must be referred to the Internal Audit Manager for consideration and if the concerns are validated the National Crime Intelligence Service must be notified (Part 7 of the Proceeds of Crime Act 2002) or a constable notified (Part 3 of the Terrorism Act 2000).

## ***TMP10 – training and qualifications***

This 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 Head of Finance will recommend and implement the necessary arrangements.

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

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

The present arrangements are detailed in the schedule below:

Qualifications/ experience for treasury staff	CCAB Qualified Accountant AAT Accounting Technician Certificate in International Treasury Management – Public Finance.
Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are (examples below): <ul style="list-style-type: none"> <li>▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance &amp; Borrowing, Financial Management run by CCAB bodies</li> <li>▪ Any courses/seminars run by Treasury Management Consultants.</li> <li>▪ Attending CIPFA Conference</li> <li>▪ Training attended by those responsible for scrutiny of the treasury function</li> </ul> Support all CCAB Qualified Accountants who are obliged to carry out a minimum level of Continuing Professional Development annually.
Records of training received by treasury staff	All training records are maintained within the Selima personnel system
Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management by Democratic Services

## *TMP11 – Use of External Service Providers*

This Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises the 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 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. 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 Head of Finance and details of current arrangements are set out in the schedule below.

<b>SCHEDULE</b>				
Service	Provider	Start Date	Initial Period	Extensions
Banking	National Westminster	April 2007	4 Years	2 Years
Treasury Management Advice	Arlingclose	April 2011	4 Years	1 Year
Brokerage Services	Tradition UK Ltd	Ongoing as required		
	Sterling Brokers Ltd	Ongoing as required		
	ICAP	Ongoing as required		
	Prebon	Ongoing as required		
	NatWest Bank	Ongoing as required		

The Council is mindful of the requirements of the bribery act 2011 in its dealings with external providers

## *TMP12 – Corporate Governance*

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

The Council has adopted and implemented the key recommendations of the CIPFA Code of Practice. This is considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Stewardship responsibilities	The Head of Finance ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	<p>The following documents are freely available for public inspection:</p> <p>Examples</p> <ul style="list-style-type: none"> <li>▪ Annual Financial Report incl. Statement of Accounts</li> <li>▪ Budget Book</li> <li>▪ 3 Year Capital Plan</li> <li>▪ Treasury Management Strategy</li> <li>▪ Treasury Management Policy</li> <li>▪ Treasury Management Mid Year Review</li> <li>▪ Treasury Management Annual Stewardship</li> </ul>
Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Audit of Committee and Performance Management Team.