

AUDIT COMMITTEE

11 March 2014

TREASURY MANAGEMENT PRACTICES

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD055: Treasury Management Policy and Practices, 12 March 2013

CAB2554: Treasury Management Strategy 2014-15, 12 February 2014

EXECUTIVE SUMMARY:

The annual Treasury Management Strategy (together with the Treasury Management Policy Statement) was approved by the Council on 20 February 2014. This requires the Council to adopt suitable Treasury Management Practices that will support the Policy and Strategy. The Audit Committee has responsibility for the scrutiny of treasury management practices.

The Treasury Management Strategy has been updated to reflect the changing cash management needs of the Council, in the context of the changing banking environment in which it operates.

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

RECOMMENDATION:

That the Audit Committee considers the attached Treasury Management Practices, which support the delivery of the Treasury Management Strategy for 2014/15, prior to these being adopted and published by the Chief Finance Officer.

OTHER CONSIDERATIONS:

1. COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 1.1. Efficient delivery of the Council's annual Treasury Management Strategy is fundamental to the operation of the Council. Achieving corporate priorities must go in hand with effective management of the Council's cash.

2. RESOURCE IMPLICATIONS:

- 2.1. None.

3. BACKGROUND DOCUMENTS:

None

APPENDIX : Treasury Management Practices

Treasury Management Practices

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Treasury Management Practices

1. Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy: Treasury Management in the Public Services: A Code of Practice (CIPFA TM Code) under Financial Procedure Rule 5.4 (CAB313, 13 February 2002 refers). The Code requires the setting out of the responsibilities and duties of members and officers, enabling a framework for reporting and decision making on all aspects of treasury management. It is the responsibility of the Chief Finance Officer to ensure that suitable treasury management practices (TMPs) are maintained and reviewed annually. The framework sets out the manner in which the Council will seek to achieve its policies and objectives and also prescribe how the Chief Finance Officer will manage and control these activities on behalf of the Council.

In accordance with the requirements of the CIPFA Code, Council has approved the annual Treasury Management Strategy and Policy statement (CAB 2544, 12 February 2014 refers) in advance of the commencement of the financial year in which they become effective. Subsequently the Chief Finance Officer has reviewed the current TMPs to ensure that they continue to support the Council's approved Treasury Management Strategy and Policy statements in the forthcoming financial year.

The TMPs which will support that treasury management strategy in 2014/15 are now provided for consideration by the Audit Committee.

2. Key Principles

The Council endorses the following three key principles of the CIPFA TM Code for managing its treasury management activities to ensure that priority is given to security and liquidity when investing funds:

- the implementation of formal, comprehensive objectives, policies and practices for ensuring the effective management and control of treasury management activities in line with the Council's treasury management strategy and for reporting performance against plan;
- the implementation of clear policies and practices which stipulate that effective management and control of risk are the prime objectives of treasury management activities and that the responsibility for adherence to these policies and practices lies clearly within the organisation;
- the employment of suitable performance measures in support of business objectives and in pursuit of value for money in treasury management activities within the overall context of effective risk management.

The TMPs set out the manner in which the Council seeks to manage and control its treasury management activities by prescribing how it intends to ensure that

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priority is given to security and liquidity over yield when investing funds. Security and liquidity are foremost to enable the Council to satisfy its balanced budget and stewardship requirements regarding the security of its financial assets.

The following section sets out the TMPs selected by Council as relevant to its treasury management powers and scope of its treasury management activities.

3. Treasury Management Practices

Treasury Management Practices included in the Treasury Management Procedures cover the following areas:

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| 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 |

Treasury Management Practices

TMP1 – Risk Management

The Council's treasury management strategy acknowledges treasury risk management as:

“the on-going activity of adjusting the treasury exposures in the light of changing market or domestic circumstances” and that doing nothing does not avoid or minimise risks” because “a risk can be in the failure to take advantage of opportunities to optimise the Council achieving its planned objectives”.

The Chief Finance Officer is responsible for the design and implementation of the Council's TMPs. The Chief Finance Officer:

- monitors all arrangements for the identification, management and control of treasury management risk to ensure that the Council achieves the objectives of its treasury management strategy;
- reports at least annually on the adequacy/suitability of the Council's treasury risk management arrangements;
- reports, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's treasury management objectives.

all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. The arrangements, which seek to ensure compliance with these objectives, in respect of each of the following risks, are set out in the schedule to this document.

1. Credit and Counterparty Risk management

The security of the principal sums invested and the affordability of amounts borrowed are key objectives of the Council's treasury management activities. The Council has adopted counterparty policies that aim to help mitigate the unforeseen risk of failure by a third party to meet its contractual obligations to the Council particularly as a result of the third party's diminished creditworthiness and the resulting detrimental effect it could have on the Council's capital or revenue resources.

The Council maintains:

- (1) counterparty lists and limits that reflect a prudent attitude towards organisations with which funds may be deposited and also limits its investment activities to the instrument methods and *techniques referred to in TMP4 Approved instrument methods and techniques* as listed in the schedule to this document (see criteria for selecting counterparties contained in the Treasury Management Strategy CAB2554, February 2014);
- (2) a formal counterparty policy in respect of those organisations from which the Council may borrow or enter into other financing arrangements;

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- (3) a policy of diversification in the organisations with which the Council deals so as to avoid over reliance on a small number of third parties. The standing and status of these third parties is kept under continuous review by the Chief Finance Officer in consultation with the Council's treasury management advisors.

2. Liquidity Risk Management

The Council acknowledges that ineffective management of liquidity creates additional unbudgeted costs and that the Council's service objectives will be compromised should cash not be made available immediately when needed.

It is the responsibility of the Chief Finance Officer to:

- (1) ensure that the Council has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable the Council at all times to have the level of funds available to it which is necessary for the achievement of its service objectives;
- (2) maintain an effective cash and cash flow forecasting and monitoring system that will identify the extent to which the Council is exposed to the effects of potential cash flow variations. The principles of this system are set out in *TMP8 – Cash and Cashflow Management*;
- (3) ensure that the Council will not borrow in advance of need unless there is a clear business case for doing so with regards to implementing the approved capital programme or to finance future debt.

3. Interest Rate Risk Management

The Council acknowledges that fluctuations in the levels of interest rates can create an unexpected burden on the Council's finances should the Chief Finance Officer fail to protect it adequately.

The Chief Finance Officer:

- (1) manages the Council's exposure to fluctuations in interest rates with a view to containing interest costs, or securing interest revenues, in accordance with the amounts provided in budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.
- (2) makes prudent use of the Council's approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, whilst 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; any such change would be subject to the Council's consideration and approval in accordance with financial procedure rules governing the conduct of business.

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(3) gives due consideration to professional advice provided by the Council's treasury management advisors on the future likely course that interest rates may take in order to enable Council assess the extent to which movements in these may impact on decision making; appropriate procedures have been built into the Council's budget processes to enable this to happen and an interest rate commentary has been included in the 2014/15 treasury management strategy.

4. Exchange Rate Risk Management

The Council complies with legal requirements to conduct its affairs in sterling which minimises its exposure to exchange rate fluctuations. The Council is aware that exchange rate fluctuations could arise on investments made in sterling in foreign institutions in exceptional circumstances.

The Council manages its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

5. Refinancing Risk Management

The Chief Finance Officer:

- (1) ensures that the Council's borrowing, and credit arrangements are properly structured and documented and that the maturity profile of the monies so raised are managed with a view to obtaining offer terms for renewal or refinancing, if so required, which are competitive and favourable to the Council in the light of market conditions prevailing at the time;
- (2) manages the Council's treasury management relationships with counterparties in these transactions in such a manner so as to secure the most favourable terms for the Council but without over-reliance on any one source of funding lest this might jeopardise achievement of point (1) above.

6. Legal and Regulatory Risk Management

The Council acknowledges that should either the Council itself, or a third party with which it has dealings fail to act in accordance with legal powers or regulatory requirements, the Council could suffer loss as a result. The Council plans, ahead to quantify the potential impact of any likely future legislative or regulatory changes that may impact on treasury management activities.

It is the responsibility of the Chief Finance Officer to ensure that all of the Council's treasury management activities comply with statutory powers and regulatory requirements. The Council will demonstrate such compliance if required to do so to all parties with whom it deals in such activities. In framing the credit and counterparty policy under TMP1 *credit and counterparty risk management*, the Chief Finance Officer provides assurance to Council by:

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- (1) evidencing the counterparties' powers, authority and compliance in respect of the transactions that the Council may effect with the organisation, particularly with regard to the duty of care and fees charges;
- (2) following the same route as that for budget setting and financial planning when updating the Council's annual TM strategy, policies and supporting practices to ensure, as far as is reasonable to do, no unexpected adverse impact on the Council's budgetary position.

7. Fraud, Error and Corruption, and Contingency Management

The Council must satisfy itself that the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings are identified and therefore must maintain effective contingency management arrangements to these ends.

The Council:

- (1) employs suitable resources (people and procedural systems) and maintains effective contingency management arrangements to help mitigate its exposure to risks of loss through fraud, error, corruption or other eventualities in treasury management dealings;
- (2) keeps such systems under review to ensure that it has identified all the circumstances to which it may be exposed to such risk

8. Market Risk Management

The Council seeks 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 accordingly takes measures to protect itself from the potential effects of such fluctuations.

The Chief Finance Officer, in consultation with the Council's treasury management advisors manages a portfolio of variable and fixed interest earning investments to minimise any adverse impact on the principal sum invested from market fluctuations. Council measures and monitors actual and potential market fluctuations enabling corrective action to be taken in a timely manner if need be to help mitigate the risk of market fluctuations having an adverse impact on the value of the principal sums it invests.

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TMP2 – Performance Measurement

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

Accordingly, the treasury management function is the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It undergoes regular examination of alternative methods of service delivery, the availability of fiscal or other grant or subsidy incentives and the scope for other potential improvements. The performance of the treasury management function is measured using the criteria set out in the schedule to this document.

TMP3 – Decision-making and analysis

The Council maintains 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 are 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 in the schedule to this document.

TMP4 – Approved Instruments, Methods and Techniques

The Council undertakes 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*.

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

The Council considers it essential, for the purposes of (a) effective control and monitoring of its treasury management activities (b) reducing the scope for risk of fraud or error (c) achieving 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 the structure is 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

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funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

Should the Council intend, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements* and that the implications are properly considered and evaluated.

It is the responsibility of the Chief Finance Officer to ensure that:

- there are clear written statements of the responsibilities for each post engaged in treasury management and also arrangements for absence cover and that those engaged in treasury management follow the policies and procedures set out (the present arrangements are detailed in the schedule to this document);
- 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 delegations of authority to the Chief Finance Officer in respect of treasury management as established in the Council's Constitution are set out in the schedule to this document. The Chief Finance Officer is obliged to fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and (with the Council having adopted the CIPFA TM Code) adhere to its *Standard of Professional Practice on Treasury Management*.

TMP6 – Reporting requirements and management information arrangements

The Council's constitution requires regular reports to be prepared and considered for the following: (a) the implementation of its treasury management policies (b) effects of decisions taken and transactions executed in pursuit of these policies (c) implication of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting the treasury management activities and (d) performance of the treasury management function.

It is the responsibility of the Chief Finance Officer to ensure that the Council receives, as a minimum:

- (a) an annual report on the strategy and plan to be pursued in the coming year;
- (b) a mid-year review;
- (c) an annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year;

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(d) regular monitoring reports on treasury management activities and risks including any circumstances of non-compliance with the Council's Treasury Management Policy statement and TMPs should they arise;

The Audit Committee has the responsibility for the scrutiny of the treasury management policies and practices and receives these reports prior to approval by Council.

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

TMP7 – Budgeting, accounting and audit arrangements

The Chief Finance Officer prepares and amends where necessary, the annual budget for treasury management and the budget is approved by the Council. The annual budget brings together all of the costs involved in running the treasury management function, together with associated income. The matters included in the budget are at a minimum 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 Chief Finance Officer is obliged to exercise effective controls over this budget and report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management of information arrangements*.

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

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

TMP8 – Cash and Cash Flow Management

All Council monies come under the control of the Chief Finance Officer and are aggregated for cash flow and investment management purposes. It is the responsibility of the Chief Finance Officer to ensure that cash flow projections are prepared on a regular and timely basis and that these are adequate for the purpose of monitoring compliance with *TMP1[1] liquidity risk management*.

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TMP9 – 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 and therefore maintains procedures for verifying and recording the identity of counterparties and for reporting suspicions. The Council ensures that the staff involved in this activity are properly trained.

TMP10 – 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 and therefore, appoints individuals who are both capable and experienced and provides training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. It is the responsibility of the Chief Finance Officer to recommend and implement the necessary arrangements and to 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.

TMP11 – Use of External Service Providers

The Council acknowledges that the responsibility for treasury management decisions remains with the Council at all times. Council recognises the potential value of employing external providers to support the treasury management function through access to specialist skills and resources. The terms of appointment and methodology by which their value had been assessed were properly agreed and documented and are subjected to regular review. The services are subject to formal tender/re-tender arrangements whereby legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer and details of current arrangements are detailed in the schedule to this document. A spread of brokerage service providers is used for money market activities to avoid over reliance on one or a small number of companies.

TMP12 – Corporate Governance

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

The Council has adopted and implemented the key recommendations of the Code. The adoption of the Code together with other arrangements are considered vital to the achievement of proper corporate governance in treasury management; the CFO monitors and where necessary, reports upon the effectiveness of these arrangements.

Schedules of Treasury Management Working Practices

TMP 1: RISK MANAGEMENT

Schedule 1: Credit and Counterparty Risk Management

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| Criteria to be used for creating/managing approved counterparty lists/limits | <p>The Council maintains a counterparty list and monitors and updates the credit standing of the institutions on a regular basis.</p> <p>The assessment includes consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength such as sovereignty, credit default swaps. The Council takes into account information on corporate developments of and market sentiment towards investment counterparties when assessing counterparties.</p> |
| Approved methodology for changing limits and adding/removing counterparties | The Chief Finance Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria specified in the Treasury Management Strategy approved by Council. |
| Counterparty list and limits | A full individual listing of counterparties based on the criteria is maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list is maintained on an on going basis. |
| Country, sector and group listings of counterparties and overall limits applied to each, where appropriate | Investments are recorded and monitored so as to show total group exposure, total country exposure and total sector exposure. |
| Details of credit rating agencies' services and their application | The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess the creditworthiness of institutions. |
| Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment | The Council's Treasury Advisors, Arlingclose, provide 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. |

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Schedule 2: Liquidity Risk Management

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| Cash flow and cash Balances | The Council's Corporate Accountant (Treasury) maintains a cash flow forecast and seeks to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise any bank overdraft interest payable or maximise the amount of interest receivable, whilst ensuring the security of funds. The target amount of daily cash balance to be held is kept under review. |
| Short term investments | The Council also uses various Reserve Accounts and Money Market Funds to help manage its liquidity requirements. These Accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy. |
| Temporary Borrowing | Temporary borrowing through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year. |
| Bank Overdraft standby facility | / The Council has a Group Overdraft Facility: Net Nil – Gross £8m (i.e. the aggregate of the cleared credit balances less the aggregate of the cleared debit balances across the Operating Accounts and with any net debit balance charged at 1% over base rate). This standby facility has been put in place as an option should temporary borrowing become necessary and is available for amounts of less than £1m. |

Schedules of Treasury Management Working Practices

Schedule 3: Interest Rate Risk Management

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| <p>Minimum/ maximum proportions of fixed/variable rate debt/interest</p> | <p>Borrowing and/or investments may be at a fixed or variable rate.</p> <p>The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.</p> <p>In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets and at the same time, will allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.</p> |
| <p>Managing changes to interest rate levels</p> | <p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>Interest rate forecasts are provided by Arlingclose, the Council's treasury management advisors, and are closely monitored by the Principal Treasury Accountant. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as appropriate.</p> <p>For both its borrowing and investments, the Council also considers dealing for forward periods dependent upon market conditions.</p> |
| <p>Details of approved interest rate exposure limits</p> | <p>As per the Council's prudential indicators, in terms of long term borrowing, the Council can have no more than 66% in variable interest rate borrowings.</p> |

Schedules of Treasury Management Working Practices

Schedule 4: Exchange Rate Risk Management

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| Exchange rate risk management | <p>The Council does not, on a day to day basis, have foreign currency transactions or receipts. Any unexpected receipts of foreign currency will be converted to sterling at the earliest opportunity.</p> <p>Current legislation prevents Local Authorities from borrowing in currencies other than Sterling.</p> |
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Schedule 5: Refinancing Risk Management

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| Projected capital investment requirements | <p>5 year projections are in place for capital expenditure and the financing or funding of it. This will be from capital receipts, grants or contributions, revenue resources or reserves, and from internal or external borrowing, as appropriate.</p> <p>As required by the Prudential Code, the Council undertakes Options Appraisals to evaluate the best capital expenditure financing route.</p> <p>The Council's projected long-term borrowing requirement is linked to the projected Capital Financing Requirement.</p> |
| Debt profiling, policies and practices | <p>Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.</p> <p>The Council will maintain reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and where appropriate, plan and successfully negotiate terms for any re-financing.</p> <p>Where the lender to the Council is a commercial body the Council aims for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p> |
| Policy concerning limits on revenue consequences of capital financing | <p>The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.</p> |

Schedules of Treasury Management Working Practices

Schedule 6: Legal and Regulatory Risk Management

Schedules of Treasury Management Working Practices

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| References to relevant statutes and regulations | <p>The treasury management activities of the Council comply fully with legal statute and the regulations of the Council. These are:</p> <ul style="list-style-type: none"> ▪ CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments ▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities ▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments ▪ CIPFA Standard of Professional Practice on Treasury Management ▪ The Local Government Act 2003 ▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments ▪ Pensions, England and Wales - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 – SI 2009 No 3093 ▪ The CLG's statutory Guidance on Minimum Revenue Provision (MRP) ▪ The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments ▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883 ▪ Local Authority Accounting Practice, (LAAP) Bulletins ▪ Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards) ▪ Accounts and Audit Regulations 2003, as amended together with CLG's Guidance ▪ The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets ▪ Council's Constitution including:- <ul style="list-style-type: none"> ○ Contract Procedure Rules ○ Financial Procedure Rules ○ Scheme of Delegation ▪ CLG's Self-Financing Policy Documentation and subsequent amendments |
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Schedules of Treasury Management Working Practices

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| <p>Procedures for evidencing the organisation's powers/ authorities to counterparties</p> | <p>The Council's Constitution contains evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p> |
| <p>Required information from counterparties concerning their powers/ authorities</p> | <p>Lending shall only be made to institutions on the Council's authorised lending list.</p> <p>The Council will undertake borrowing from approved sources only which are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing are included in the Treasury Management Strategy.</p> |
| <p>Statement on political risks and management of the same</p> | <p>Political risk is managed by:</p> <ul style="list-style-type: none"> • adoption of the CIPFA Treasury Management Code of Practice • adherence to Corporate Governance • adherence to the Statement of Professional Practice by the Chief Finance Officer • the Audit Committee. |

Schedules of Treasury Management Working Practices

Schedule 7: Fraud, Error and Corruption, and Contingency Management

Schedules of Treasury Management Working Practices

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| <p>Details of systems and procedures to be followed, including Internet services</p> | <p>Segregation of duties is designed to reduce the possibility of fraud and loss due to error, and is detailed in TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements.</p> <p>1. <u>Electronic Banking and Dealing</u></p> <p>(a) <u>Banking</u>: The Council's online banking service provided by Nat West Bank is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having full access to the bank's online system are as follows:</p> <ul style="list-style-type: none"> ▪ Chief Finance Officer ▪ Principal Treasury Accountant ▪ Principal Management Accountant ▪ Corporate Accountant – Treasury <p>Officer access is reviewed at least annually or as necessary.</p> <p>(b) Access to the Council's treasury management documentation and electronic inbox is limited to those officers listed below, each having a separate log-on and password.</p> <ul style="list-style-type: none"> ▪ Chief Finance Officer ▪ Principal Treasury Accountant ▪ Corporate Accountant - Treasury <p>These also are reviewed as necessary.</p> <p>Full procedure notes covering the day to day operation of the on-line banking system and the treasury management system are documented and included in the <u>operational procedures</u>.</p> <p>2. A Standard Settlement Instructions (SSI) list is maintained of named officers who have the authority to transact loans and investments</p> <ul style="list-style-type: none"> • Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list. • A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF. <p>3. <u>Payment Authorisation</u> :</p> <ul style="list-style-type: none"> • Payments are authorised by agreed cheque signatories of the Council, the list of signatories having previously been agreed with the Council's bank. • Inflow and outflow of monies borrowed and invested is restricted to the <u>the</u> counterparty's bank accounts. • Separate officers carry out (a) dealing and (b) payment |
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Schedules of Treasury Management Working Practices

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| Verification | <p>Loans and investments are maintained in a <u>register</u> which includes details of fees and brokerage paid.</p> <p>Transactions are cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> |
| Substantiation | <ol style="list-style-type: none"> 1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end, by an officer independent of either dealing or payment transactions. 2. Working papers are retained for audit inspection. 3. The bank reconciliation is carried out monthly from the bank statement to the financial ledger. |
| Internal Audit | <p>Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.</p> |
| Contingency Management | <ol style="list-style-type: none"> 1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary. 2. Archived paper records are stored in accordance with the Council's retention policies. 3. The treasury management function can be undertaken off-site if necessary in accordance with the Council's remote working procedures. 4. Electronic Banking System Failure: Emergency arrangements have been agreed with the Council's bank and the mode of obtaining balance details and information on inflow/outflow of monies including instructions for CHAPS payments which can be made over the phone or in person at the local High Street Branch. 5. The Contingency procedures are maintained by Corporate Accountant (Treasury) and printed copies are retained in a secure location by Principal Treasury Accountant. |
| Insurance Cover details | <p>The Council has Fidelity Guarantee cover. Details of the provider and cover are held by the Insurance and Risk Management Section dealing with Insurance and the information is recorded on the intranet.</p> |

Schedules of Treasury Management Working Practices

Schedule 8: Market Risk Management

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| Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc) | Investment instruments used by external funds are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance is commensurate with this objective. |
| Accounting for unrealised gains/losses | The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with Generally Accepted Accounting Practice. |

Schedules of Treasury Management Working Practices

TMP 2: PERFORMANCE MEASUREMENT**Schedule 9:**

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| Policy concerning methods for testing value for money | <p>Value for money reviews include the production of plans to review the way the service is provided by:</p> <ul style="list-style-type: none"> ▪ challenging, ▪ comparing performance, ▪ consulting with other users and interested parties, ▪ applying competition principles, <p>in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p> |
| Policy concerning methods for performance measurement | <ul style="list-style-type: none"> • 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. • Prudential Indicators are local to the Council and are not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis. <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"> (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 (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. <p>In drawing any conclusions the Council is aware that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p> |

Schedules of Treasury Management Working Practices

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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 is carried out on an on-going basis and reported to the Audit Committee on a six monthly basis.</p> <p>The year-end Annual Treasury Report includes, 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's Treasury Management advisors review the existing debt portfolio annually 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 provide benchmarking data quarterly comparing performance with all of their Local Authority clients.</p> |
| <p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p> | <p>Treasury management activity is reviewed monthly against strategy and prevailing economic and market conditions and summary information is reported in the monthly Finance Report to Performance Management Team and Leader's Board. The report includes relevant performance data, the format of which is reviewed and agreed annually.</p> <p>More detailed treasury management activity is reported half yearly against strategy and prevailing economic and market conditions through the Treasury Management Mid –Year Review and the annual Stewardship Report to the Audit Committee.</p> |

Schedules of Treasury Management Working Practices

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| <p>Benchmarks and calculation methodology with regard to risk and return</p> | <p>Investment returns are compared to base rate</p> <ul style="list-style-type: none"> • Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. <p>Debt Management</p> <ul style="list-style-type: none"> ▪ Average Rate on all external debt ▪ Average Rate on external debt borrowed in financial year ▪ Average Rate on internal borrowing ▪ Average period to maturity of external debt ▪ Average period to maturity of new loans in financial year ▪ Ratio of PWLB and market debt (beginning and end of period) ▪ Ratio of fixed and variable rate debt (beginning and end of period) |
| <p>Value for money</p> | <p>The treasury management function is subject to on-going analysis of the value it adds in support of the Council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Constitution.</p> |

TMP 3 : DECISION-MAKING AND ANALYSIS

Schedule 10

Schedules of Treasury Management Working Practices

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| Major treasury decisions | <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"> a) Changes to Prudential Indicator(s) during the course of the financial year b) Options Appraisal to determine a funding decision c) Raising a new long-term loan / long-term source of finance d) Prematurely restructuring/redeeming an existing long-term loan(s) d) Investing longer-term (i.e. in excess of 1 year) f) Utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate) g) Leasing h) Change in banking arrangements i) Appointing/replacing a treasury advisor j) Appointing/replacing a fund manager k) Any other determined by the Council |
| Process | <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 Corporate Accountant (Treasury) will prepare a 12 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"> • applying the strategy on a day to day basis • monitoring the results of the strategy • recommending amendments to the strategy to the Audit Committee where applicable during the course of the year. |
| Delegated powers for treasury management | <p>The Chief Finance Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.</p> |

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| <p>Issues to be addressed, evaluation, authorisation</p> | <p>In exercising these powers, the Chief Finance Officer and others with delegated authority will:</p> <ul style="list-style-type: none"> • have regard to the nature and extent of any associated risks to which the Council may become exposed; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; • follow best practice in implementing the treasury transaction. <p>In exercising Borrowing and Funding decisions, the Chief Finance Officer will :</p> <ul style="list-style-type: none"> • evaluate economic and market factors that may influence the manner and timing of any decision to fund; • consider alternative forms of funding, including use of revenue resources, leasing and private partnerships; • consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; • consider on going revenue liabilities created. <p>In exercising Investment decisions, the Chief Finance Officer will :</p> <ul style="list-style-type: none"> • Determine that the investment is within the Council's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; |
| | <p style="text-align: center;">Page 16</p> <ul style="list-style-type: none"> • consider the alternative investment products and techniques available if appropriate |

Schedules of Treasury Management Working Practices

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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 maintains a record of all its 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 are maintained by the Council electronically and where relevant hard copies in files.</p> |

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Schedule 11:

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| Approved treasury management activities | <p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> ▪ Managing cash flow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities. <p>The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques. The Council will consider carefully whether its officers working in consultation with its appointed treasury management advisors have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p> |
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Schedules of Treasury Management Working Practices

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| <p>Approved capital financing methods and types/sources of funding</p> | <p>The Council's approved sources of long-term and short-term borrowing are:</p> <ul style="list-style-type: none"> • Public Works Loans Board (PWLB) loans • UK Local Authorities • Any institution approved for investments • Any other bank or building society authorised by the Prudential Regulation Authority • UK public and private sector pension funds (except the Hampshire Pension Fund) • Capital market bond investors • Special purpose companies created to enable joint local authority bond issues <p><u>Other sources include:</u></p> <p><u>On balance sheet</u></p> <ul style="list-style-type: none"> • bank overdraft • Finance Leases • Government and EU Capital Grants • Lottery monies • Other Capital Grants and Contributions <p><u>Internal Resources</u></p> <ul style="list-style-type: none"> • Capital Receipts • Revenue Balances • Use of Reserves <p><u>Off balance sheet</u></p> <ul style="list-style-type: none"> • Operating Leases <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p> |
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Schedules of Treasury Management Working Practices

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| Approved investment instruments | <p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will determine through the AIS which instruments will be used including the maximum exposure for each category of non-specified investments.</p> <p>The approved organisations for investment are contained in the counterparty list which is maintained, constantly reviewed and updated by our treasury management consultants.</p> |
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Schedules of Treasury Management Working Practices

TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, DEALING ARRANGEMENTS

Schedule 12

The latest organisational chart of the Financial Service team can be found on the Council's Internet

Schedule 13:

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| <p>Limits to responsibilities at Executive levels</p> | <p>Full Council:</p> <ul style="list-style-type: none"> • receiving and reviewing Prudential Indicators as part of the budget setting process (as recommended by Cabinet) • budget consideration and approval (as recommended by Cabinet) <p>Cabinet:</p> <ul style="list-style-type: none"> • approving the selection of external service providers and agreeing terms of appointment <p>The Audit Committee:</p> <ul style="list-style-type: none"> • receiving and reviewing reports on treasury management policies, practices and activities • consideration of amendments to adopted clauses and treasury management practices • receiving and reviewing external audit reports and acting on recommendations |
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Schedules of Treasury Management Working Practices

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| <p>Principles and practices concerning segregation of duties</p> | <p>The segregation of duties is determined by the Chief Finance Officer</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> • the officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer(s) with responsibility for recording the transactions in the cash book. • the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments • all borrowing/investments decisions are authorised by the Principal Treasury Accountant and in his absence the Chief Finance Officer (and in the absence of the Chief Finance Officer the deputy s151 officer). |
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Schedules of Treasury Management Working Practices

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| Statement of duties/ responsibilities of each treasury post | <p>The Chief Finance Officer is responsible for:</p> <ul style="list-style-type: none"> • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting value for money reviews • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • ensuring the adequacy of internal audit and liaising with external audit • recommending the appointment of external service providers • determining long-term capital financing and investment decisions. • The Chief Finance Officer has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. <p>The Principal Treasury Accountant is responsible for:</p> <ul style="list-style-type: none"> • 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 • monitoring performance on a day to day basis • submitting management information reports to the Chief Finance Officer • identifying and recommending opportunities for improved |
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Schedules of Treasury Management Working Practices

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| | <p>The Corporate Accountant (Treasury) is responsible for:</p> <ul style="list-style-type: none"> • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • recording treasury management transactions, • verify counterparty identity and record counterparty documentation <p>Technical Accounting team:</p> <ul style="list-style-type: none"> • reconciling treasury management transactions with the financial ledger <p>Exchequer Team:</p> <ul style="list-style-type: none"> • Transmission of funds |
| Absence cover arrangements | <p>Cover in the absence of the Principal Treasury Accountant is provided by the Chief Finance Officer.</p> <p>Cover for the Corporate Accountant (Treasury) is provided by the Principal Treasury Accountant.</p> <p>Cover for the Chief Finance Officer in relation to approval of payments is provided by the Principal Management Accountant.</p> |
| List of approved brokers | Brokers used by the Council are named in TMP 11 : External Service Providers |
| Policy on brokers' services | It is the Council's policy to utilise the services of at least two brokers. The Council maintains a spread of business between them in order to avoid relying on the services of any one broker. |
| Policy on taping of conversations | The Council does not tape the conversations with brokers but conversations with brokers are taped by the brokers. |

Schedules of Treasury Management Working Practices

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| Direct dealing practices | <p>Direct dealing is carried out with institutions identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits.</p> <p>Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.</p> <p>The template for the Council's Standard Settlement Procedures is included in the operational procedures.</p> |
| Deal Ticket proforma | Deals will be recorded as per the deal ticket proforma (proforma maintained at operational level) |
| Settlement transmission procedures | <ul style="list-style-type: none"> • settlements are made by <u>CHAPS</u>. • all <u>CHAPS</u> payments relating to settlement transactions require authorisation by either the Principal Treasury Accountant or the Chief Finance Officer or in the event of absence, the Principal Management Accountant. • all <u>CHAPS</u> payments are required to be approved in accordance with the Council's delegated approvals • details are transmitted by bankline to the Council's bankers by the Accounts Payable Team. |
| Documentation requirements | For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker. |

Schedules of Treasury Management Working Practices

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**Schedule 13**

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| <p>Frequency of executive reporting requirements</p> | <p>The Chief Finance Officer submit budgets annually and reports on budget variations as appropriate.</p> <p>The Chief Finance Officer submits the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Council before the start of the year.</p> <p>The Annual Treasury Stewardship Report is prepared by the Principal Treasury Accountant as soon as is practicable after the financial year end and, in all cases, before the end of September.</p> <p>A Mid-Year Treasury Report is prepared by the Principal Treasury Accountant which reports on treasury management activities for the first part of the financial year. The report provides also a forecast for the current year. The Mid-Year Report is submitted to the Audit Committee in December.</p> |
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Schedules of Treasury Management Working Practices

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| <p>Content of Reporting: 1. Prudential Indicators</p> | <p>The Council will set the following Prudential Indicators, and following the year end publish actuals (where appropriate) in respect of :</p> <ul style="list-style-type: none"> ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Incremental impact of capital financing decisions (estimate) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt ▪ Upper limits on fixed and variable rate interest exposures ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. <p>The Prudential Indicators are approved and revised by the Council and are integrated into the Council's overall financial planning and budget process.</p> <p>The Overview & Scrutiny Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p> |
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Schedules of Treasury Management Working Practices

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| <p>2. Treasury Strategy Statement including the Annual Investment Strategy</p> | <p>The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> • Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing <u>three</u> years • Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy for the forthcoming year(s) (<i>see below*</i>) • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. <p>*Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out</p> <ul style="list-style-type: none"> ▪ the objectives, policies and strategy for managing its investments; ▪ the determination of which Specified and Non-Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances; ▪ the limits for the use of Non-Specified Investments. <p>The AIS will be integrated into the Treasury Strategy Statement.</p> <p>The Overview & Scrutiny Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p> |
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Schedules of Treasury Management Working Practices

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| <p>3. Annual Treasury Report</p> | <p>The Principal Treasury Accountant will produce an annual report for the Audit Committee on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.</p> <p>The main contents of the report will comprise :</p> <ul style="list-style-type: none">▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the financial year;▪ the prevailing economic environment▪ a commentary on treasury operations for the year, including their revenue effects;▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council▪ compliance with agreed policies/practices and statutory/regulatory requirements▪ compliance with Prudential Indicators;▪ performance measures. |
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| 4. Mid-Year Treasury Report | <p>The Principal Treasury Accountant will produce a mid-year report for the Audit Committee, on the borrowing and investment activities of the treasury management function for the first six months of the financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> • Economic background • Economic forecast (including interest rates forecast) • Treasury Management Strategy Statement update • Performance versus benchmarks • Borrowing information (including premature repayment, new loans information) • Information on investments, including current lending list • Prudential indicators relating to treasury management • Governance framework and scrutiny arrangements |
| Content and frequency of management information reports | <p>The Principal Treasury Accountant produces a monthly monitoring report for the Performance Management Team and Leader's Board.</p> |

Schedules of Treasury Management Working Practices

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS
Schedule 14

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| Statutory/regulatory requirements | <p>Balanced Budget Requirement: The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:,</p> <p>(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and</p> <p>(b) revenue costs which flow from capital financing decisions.</p> <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p> |
| Proper accounting practice | CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003". |
| Disclosures relating to treasury management | Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice. |
| Internal Audit | 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. |
| Compliance with CIPFA Treasury Management and Prudential Codes | <p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p> |
| Costs for treasury management | The budget for treasury management forms part of the Financial Services budget. |

Schedules of Treasury Management Working Practices

Schedules of Treasury Management Working Practices

TMP 8: CASH AND CASH FLOW MANAGEMENT**Schedule 15**

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| <p>Arrangements for preparing /submitting cash flow statements</p> | <p>Cash flow forecasts will be viewed over <u>three</u> time horizons and will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>An outline medium-term cash flow model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves.</p> <p>A detailed annual cash flow is prepared for the financial year, which is monitored and updated on a monthly basis. It identifies the major inflows and outflows on a month by month basis.</p> <p>It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years.</p> <p>Daily cash flows show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments.</p> |
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Schedules of Treasury Management Working Practices

TMP 9: MONEY LAUNDERING

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

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

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

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

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

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

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

Schedules of Treasury Management Working Practices

Schedule 16

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| Anti money laundering policy | <p>This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p> |
| Nomination of Responsible Officer(s) | <p>(a) The Council has nominated Head of Legal Services to be the responsible officer(s) to whom any suspicions relating to transactions involving the Council will be communicated.</p> <p>(b) The responsible officer(s) will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer(s) will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p> |

Schedules of Treasury Management Working Practices

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| <p>Procedures for establishing the Identity of Lenders and Borrowers</p> | <p>(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.</p> <p>(b) The Council will not accept loans from individuals.</p> <p>(c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.</p> <p>(d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk.</p> <p>(e) All receipts/disbursements of funds will be undertaken by <u>BACS or CHAPS</u> settlement.</p> <p>(f) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.</p> <p>(g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.</p> |
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Schedules of Treasury Management Working Practices

TMP 10: TRAINING AND QUALIFICATIONS**Schedule 17**

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| Qualifications/ experience for treasury staff | Treasury management staff are required to be CCAB Qualified Accountants with up-to-date relevant treasury management training – ideally holding a Certificate in Treasury Management. |
| Details of approved training courses | <p>The courses/events the Council would expect its treasury personnel to consider are <i>(examples below)</i>:</p> <ul style="list-style-type: none"> ▪ Certificate in International Treasury Management – Public Finance (<i>this is a CIPFA TM qualification run by the Association of Corporate Treasurers</i>) ▪ Any courses/seminars run by Treasury Management Consultants ▪ Training courses for Accounting, Auditing, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA, IPF and other bodies, as relevant ▪ Training attended by those responsible for scrutiny of the treasury function. <p>The Council participates in both the ACCA and CIPFA Employer Accreditation Schemes for CPD purposes which are based on planning, recording and evaluating development. All CCAB Qualified Accountants are obliged to carry out a minimum level of Continuing Professional Development annually..</p> |
| Records of training received by treasury staff | Treasury-related training records are maintained as part of the Council's appraisal system and recorded on Selima. |
| Records of training received by those charged with governance | Training records are maintained of those members responsible for governance of treasury management attending treasury management training that is offered. |

Schedules of Treasury Management Working Practices

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS**Schedule 18**

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| <p>Details of service providers and procedures and frequency for tendering services</p> | <p>(a) Bankers to the Council: National Westminster Bank PLC Old Bank Branch, 105 High Street, Winchester. Telephone: 08706000459 Contract period : 1st April 2013 to 31st March 2018 Formal agreement in place – with option for five year extension</p> <p>(b) Treasury advisor Arlingclose Limited, 60 Moorgate, London, EC2R 6EL, Telephone 08448808200 Contract period : 1 April 2011 to 31 March 2015 Formal agreement in place with option for 1 yr extension</p> <p>(d) Brokers: Acting in accordance with considered good practice the Council spreads its business through at least two of the following brokers:</p> <p>(i) Sterling Consultancy Services a division of BCG partners 10, Chiswell Street, London, EC1Y 4UG</p> <p>(ii) Tullett Prebon, 155 Bishops Gate, London EC2M 3TQ</p> <p>(iii) ICAP, 155 Bishops Gate, London EC2M 3TQ</p> <p>(iv) Tradition, Beaufort House, 15 St. Botolph Street, London EC3A 7QX</p> |
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Schedules of Treasury Management Working Practices

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| Regulatory status of services provided | <p>The Council's external service providers are listed below, along with their regulatory status:</p> <ul style="list-style-type: none"> • Nat West, the Council's bankers is regulated by the Financial Conduct Authority and the Prudential Regulation Authority • Arlingclose, the Council's Treasury Advisor is regulated by the Financial Conduct Authority • Each of the Council's brokers: Sterling Consultancy Services; Tulley Prebon; ICAP; Tradition are regulated by the Financial Conduct Authority |
| Details of service provided by Treasury Advisor | <ul style="list-style-type: none"> • Review the Council's in-house and external investment arrangements • Provide advice and guidance within an agreed strategy on investments, long-term borrowing and debt restructuring opportunities • Provide advice in relation to technical and accounting issues arising from treasury management operations • Assist in the compilation of treasury management policies, practices and out-turn reports • Provide relevant and timely economic information and forecasts • Advise on counterparty lists • monitor and comment on the performance of the Council's investments, • invitation for one officer to attend the providers standard training events and one day per annum on site officer/member training at the Council's request. |

Schedules of Treasury Management Working Practices

TMP 12: CORPORATE GOVERNANCE**Schedule 19**

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| Stewardship responsibilities | The Chief Finance Officer 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><i>Examples</i></p> <ul style="list-style-type: none"> ▪ Annual Statement of Accounts ▪ Budget Book ▪ 5 Year Capital Plan ▪ Treasury Management Strategy ▪ Treasury Management Policy ▪ Annual Treasury Stewardship Report ▪ Mid-year Treasury Monitoring Report |
| Council's website. | Financial information is available on the Council's website. |
| Procedures for consultation with stakeholders. | Members and senior officers of the Council are consulted via reports to the Audit Committee and officer/member briefing sessions. |