

## RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

Agenda Item No 11b

meeting date: 29 MARCH 2011  
title: TREASURY MANAGEMENT POLICIES AND PRACTICES 2011/12  
submitted by: DIRECTOR OF RESOURCES  
principal author: TRUDY HOLDERNESS

### 1 PURPOSE

- 1.1 To review, approve and adopt the treasury management clauses and policy statement.
- 1.2 To review an updated copy of the current treasury management practices.

### 2 BACKGROUND

- 2.1 In March 2004 you agreed to formally adopt CIPFA's reviewed Code of Practice on Treasury Management. The code was further revised in 2009 and identifies three key principles:

- ❖ Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- ❖ Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.
- ❖ They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

- 2.2 The code also contains four clauses that the council should formally adopt, as part of its standing orders, financial regulations, or other formal policy documents. The four clauses are:

- i) Ribble Valley Borough Council will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

The context of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this

council. Such amendment will not result in Ribble Valley Borough council materially deviating from the Code's key principles.

- ii) The Policy and Finance Committee of Ribble Valley Borough Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs
- iii) Ribble Valley Borough Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Finance Committee and for the execution and administration of treasury management decisions to the Director of Resources who will act in accordance with the council's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.
- iv) Ribble Valley Borough Council nominates the Policy and Finance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### 3 TREASURY MANAGEMENT POLICY STATEMENT

- 3.1 The Treasury Management policy statement was originally approved in March 2004 and is shown at Appendix 1. The revisions to the Code of Practice on Treasury Management in 2009 did not require us to revise this statement.

### 4 TREASURY MANAGEMENT PRACTICES

- 4.1 Since approving the treasury management policy statement and treasury management practices in March 2004, this committee has approved a number of amendments.

- ❖ Change the name of a broking firm to Tullett Prebon (UK) Ltd
- ❖ Amend limit of investment to £1.5m per institution
- ❖ Remove Northern Rock and City Bank from list of counter parties
- ❖ Add Newcastle building society, Bank of Scotland and Debt Management office to list of counter parties.
- ❖ Reinstate Northern Rock Plc to our list of counter parties
- ❖ Increase the lending limit to £2.5m for Debt Management office only.
- ❖ Change the names for Abbey National and the Alliance and Leicester to Santander UK Plc.
- ❖ Change the name of Northern Rock PLC to Northern Rock (Asset Management) Plc
- ❖ Removal of Britannia, Chelsea, Cheshire and Derbyshire Building Societies following mergers with other building solidities

- 4.2 These amendments have been incorporated into the attached Treasury Management Practices at Appendix 2.

- 4.3 This report also seeks member approval of two further changes to the council's Treasury Management Practices.

- 4.4 The first proposal relates to the reference in the Treasury Management Practices that there should be a minimum investment of £200,000 on call at any one time and fixed funds should not exceed 90%. In the current economic climate we have been unable to achieve this and instead we have used a facility with our own bank to place money either overnight or on a short-term fixed basis. We therefore wish to remove this item from the practices.
- 4.5 Previously within the Treasury Management Practices it stated that on an annual basis, the average rate of interest received on all external investments should be compared with the total average interest received for non-metropolitan districts. We are unable to identify interest rate received for non-metropolitan districts, but use the average rate for local authority seven-day notice deposits instead. We therefore wish to seek member approval for this change in practice.
- 4.6 Both of these changes in practice have been incorporated in to the document at Appendix 2, together with a number of other minor amendments.
- 5 RECOMMENDED THAT COMMITTEE
- 5.1 Review, approve and formally adopt the treasury management clauses as shown at paragraph 2.2.
- 5.2 Review, approve and formally adopt the treasury management policy statement as shown at Appendix 1.
- 5.3 Review and approve the treasury management practices as shown at Appendix 2.

SENIOR ACCOUNTANT

PF23-11/TH/AC  
18 March 2011

POLICY & FINANCE COMMITTEE

TREASURY MANAGEMENT POLICY STATEMENT

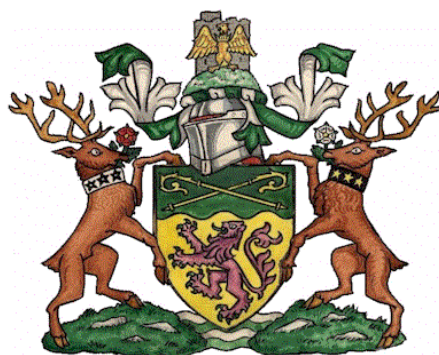
- 1 Ribble Valley Borough Council defines its treasury management activities as:

***“The management of the organisation’s cash flows, its banking, money market and capital market transactions: the effective control of the risk associated with those activities: the pursuit of optimum performance consistent with those risks”.***

- 2 Ribble Valley Borough Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Therefore the major focus of the analysis and reporting of treasury management decisions and transactions will be on the risk implications for the Council.

- 3 Ribble Valley Borough Council acknowledges that effective treasury management should provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employ suitable performance measurement techniques, within the context of effective risk management.

# Ribble Valley Borough Council



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## Treasury Management Practices: 2011/2012

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## ***Treasury Risk Management***

The Director of ~~Finance~~ [Resources](#) will:

- ❖ Design, implement and monitor all arrangements for the control of treasury management risk;
- ❖ Report, at least annually, on the adequacy/suitability thereof; and
- ❖ Report the circumstances of any actual or likely difficulty in obtaining the Council's objectives in this respect, in accordance with the procedures set out in reporting requirements and management information arrangements.

In respect of each of the following risks, the present arrangements to ensure compliance with the following objectives is set out in the attached schedules of this document.

- ❖ ***Liquidity Risk Management***

To ensure the Council has adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have sufficient funds available for the achievement of its service objectives.

- ❖ ***Interest Rate Risk Management***

To manage the Council's exposure to fluctuations in interest rates with a view to ensuring that its net interest costs can be contained within the amounts provided in its annual budget, as amended in accordance with reporting requirements and management information arrangements.

- ❖ ***Exchange Rate Risk Management***

It is the Council's current policy to deal in sterling only.

- ❖ ***Inflation Management***

To control the Council's exposure to effects of inflation where they can be identified as impacting directly on its treasury management activities.

- ❖ ***Credit and Counter parties***

It is the Council's prime objective of its treasury management activities for the security of its capital. A formal counter party list will be maintained (Annex 1) to ensure that reasonable limits reflect an adversity to risk and 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 approved instruments, methods and techniques. It also needs to maintain a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financial arrangements.

- ❖ ***Refinancing Risk Management***

All borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in light of market

conditions prevailing at the time. To ensure compliance with this objective the Council will manage its relationship with its counter parties in such a manner that will avoid over-reliance on any one source of funding.

❖ ***Legal and Regulatory Risk Management***

The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance to all parties with whom it deals in such activities and will ensure that there is similar evidence of counter parties' powers, authority and compliance in respect of transactions entered into with the council, particularly with regard to duty of care and fees charged. The Council will seek to minimise the impact of future legislative or regulatory changes that may impact in its treasury management activities so far as it is reasonable to do so.

❖ ***Systems and Procedural Risk and Contingency Management***

The Council will design and implement suitable systems, procedures and contingency arrangements to minimise the Council's risk of loss through fraud, corruption or other eventualities in its treasury management activities.

❖ ***Market Risk Management***

The Council will seek to ensure that the values of its investments are reasonably protected from market fluctuations.

## ***Treasury Management Strategy***

The Council's treasury management strategy will be outlined annually by way of a strategy report, to be produced as part of the annual budget process. This strategy report will include the following:

- ❖ Current treasury position
- ❖ A review of the prospects for interest rates
- ❖ Borrowing and debt strategy
- ❖ Investment strategy
- ❖ Capital programme financing strategy
- ❖ Limits on treasury management activities
- ❖ Current debt portfolio
- ❖ Annual investment strategy
- ❖ Funding requirement by way of borrowing
- ❖ Interest rate assumptions
- ❖ Other funding methods if appropriate.

The following general principles will apply at all times:

❖ ***Borrowing***

Monies shall be borrowed in accordance with the Council's funding requirements with a view to minimising cost, after accounting for assumed interest rate levels and the maturity profile of the Council's outstanding debt.

❖ ***Temporary Lending and Investment***

Surplus funds shall be temporarily invested via the money market at the best rate of interest available, in accordance with the minimisation of risk of the capital sum. In all investment matters the protection of the capital sum will be of paramount importance and will override the desire to obtain the highest interest rates. Any funds held on call notices should not exceed 25% of the total amount invested at any one time, ~~with a minimum investment of £200,000~~ and be maximum of £500,000. ~~Fixed funds should not exceed 90%~~

***Longer Term Investments***

The Council will only invest monies externally on a longer-term basis where it is cost effective to do so. Any decision will also depend upon the effect this may have on the Council's borrowing requirement.

***Interest Rate Exposure***

The maximum proportion of borrowing subject to variable rates of interest is approved by Council in accordance with section 45 of the Local Government and Housing Act 1989. This proportion of borrowing is the prescribed figure for the purpose of this statement.

## ***Best Value and Performance Measurement***

The Council is committed to achieving best value in its treasury management activities. Therefore, the treasury management function will be the subject of regular reviews to identify scope for improvement:

- ❖ On an annual basis, the average rate of interest received on all external investments should be compared with the total average interest received ~~for non-metropolitan districts~~ for local authority seven-day notices deposits.
- ❖ On an annual basis the average rate of interest paid on all external debt should be compared with the total average interest paid for all non-metropolitan districts
- ❖ On a quarterly basis the average interest received on all external investment should be compared with the average rate for local authority seven-day notices deposits.



## ***Decision Making and Analysis***

The Council will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

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

All executive decisions on capital/project financing, borrowings and investments are delegated to the Director of [Finance Resources](#) who will fulfil such responsibility in accordance with the CIPFA Code and Guide and the SOPP on Treasury Management.

There shall be no restriction on the sources of borrowing with the exception of any statutory restriction, eg foreign currency.

The Council may use the following methods of raising capital finance:

- ❖ Public Works Loan Board
- ❖ Market borrowing
- ❖ Leasing
- ❖ Issue of local bonds

Only the approved instruments (Annex 2), methods and techniques will be used. These must be within the limits defined in risk management.

## ***Treasury Management Organisations, Clarity and Segregation of Responsibilities and Dealing Arrangements***

It is essential for the purposes of the effective control and monitoring of the Council's treasury management activities, and for the reduction of the risk of fraud or error, for there to be clarity of treasury management responsibilities.

The principles on which this will be based are a separation of duties between:

- ❖ Policy formulation, creation and review;
- ❖ Deal transaction and execution;
- ❖ Subsequent recording and administration; and
- ❖ Audit.

If and when the Council as a result of lack of resource or other circumstances compromise these principles the Director of [Finance Resources](#) will ensure that the reasons are properly reported in accordance with reporting requirements and management information arrangements, and the implications properly considered and evaluated.

| The Director of [Finance-Resources](#) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangement for absence cover (Annex 3).

| The Director of [Finance-Resources](#) will ensure there is proper documentation for all deals and transactions and those procedures exist for the effective transmissions of funds (Annex 4).

## ***Reporting Requirements and Management Information Arrangements***

Regular reports will be submitted to Policy and Finance Committee on:

- ❖ Annual borrowing requirements, and a strategy report on treasury management prior to the start of the financial year
- ❖ Quarterly progress reports on treasury management activity
- ❖ An annual review of the previous year's treasury management operations by 30 September of the following year
- ❖ Any circumstances of non-compliance with the Council's treasury management statement.

## ***Budgeting, Accounting and Audit Arrangements***

The Council will prepare an annual budget for its treasury management which will bring together all of its income and expenditure involved in running the treasury management function.

The Council will account for its treasury management activities in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements current in force.

The Council will ensure that its auditor, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function that are necessary to fulfil their role and that such information and papers comply with internal and external policies and approved practices.

## ***Cash and Cash Flow Management***

| All Council's monies shall be under the control of the Director of [Finance-Resources](#) and shall be aggregated for cash flow and investment purposes.

Cash flow projections will be prepared on a regular basis and the Director of [Finance Resources](#) will ensure that these are adequate for purposes of monitoring compliance with liquidity risk management (Annex 4).

## ***Money Laundering***

Procedures will be enforced for verifying and recording the identities of counter parties and reporting suspicions, and will ensure that staff involved in this area are properly trained.

## ***Staff Training and Qualifications***

The Council will seek to appoint individuals to the treasury management function 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. It is the intention of the Council:

- ❖ To have officers in the posts outlined in Annex 3. Should any vacancy for a post be unfilled for any exceptional length of time the statement will be immediately reviewed;
- ❖ That the staff holding these posts will be in receipt of adequate training to conduct their duties, either by external courses/seminars or by internal instruction

## ***Use of External Service Providers***

The Council will use the brokering firms below for the purposes of borrowing/lending on the money market:

- ❖ Tullett Prebon (UK) Ltd
- ❖ Martin Brokers plc
- ❖ Sterling International Brokers Ltd

If at some time in the future the Council choose to appoint external managers to manage its borrowing and lending requirement then those fund managers will be entirely bound by this statement.

External fund managers can only be appointed with the express approval of the Council.

At present the Council has chosen not to use external fund managers to manage its borrowing and lending requirements. If at some time in the future this decision is rescinded, after a full evaluation of the costs and benefits, then the terms of their appointment and the methods by which the service provider's value will be assessed will be properly agreed and documented and subjected to regular review by Policy and Finance Committee.

## ***Corporate Governance***

Ribble Valley Borough 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 Code. These are considered vital to the achievement of proper corporate governance in treasury management, and the Director of [Finance-Resources](#) will monitor and, if necessary, report on the effectiveness of these arrangements.

## Annex 1

**Approved Organisations for Investment**

<b>Banks</b>	
Santander Uk plc *	Barclays Bank *
Bank of Scotland plc *	Bradford & Bingley Bank plc *
Co-operative Bank *	HSBC Bank plc *
Lloyds TSB Bank plc *	Royal Bank of Scotland (The)*
National Westminster Bank *	Northern Rock (Asset Management) plc*
Debt Management Office ***	
<b>Building Societies</b>	
Coventry Building Society *	Leeds Building Society *
Newcastle Building Society*	Nationwide Building Society *
Principality Building Society *	Skipton Building Society *
Yorkshire Building Society *	West Bromwich Building Society*
<b>Other</b>	
Other local authorities in the UK **	Police, Fire Services and Transport Authorities **

* Maturity limit for each counter party	365 days
** Maturity limit for each counter party	3 months
*** Maximum limit per institution	£2.5m
Maximum limit per institution	£1.5m
Maximum limit per sector	none

The organisations listed may be used for the investment of the Council's surplus funds, subject to the maximum sum being invested at any one time with any one organisation not being exceeded. The decision to vary these limits being delegated to the Director of [finance Resources](#) and, through them, to their staff in exceptional circumstances.

***Annex 2***

***Approved Investment Instruments***

European Atomic Energy Committee

European Coal and Steel Community

European Union

European Investment Bank

International Finance Corporation

International Bank for Reconstruction and Development

International Monetary Fund

African Development Bank

Asian Development Bank

Caribbean Development Bank

Inter-American Development Bank

Guaranteed Export Finance Corporation plc

**Annex 3*****Delegated Powers and Responsibilities******Delegated Powers***

With the exception of the approval of the Council's borrowing limits under section 45 of the Local Government and Housing Act 1989, all matters relating to treasury management shall be determined by Policy and Finance Committee.

All executive decisions and actions on borrowing, investment or financing shall be delegated to the Director of [Finance Resources](#) and, through them, to their staff. Such decisions and actions to be in accordance at all times with the treasury policy statement.

The delegation of decisions to staff will be regulated by a treasury management systems and procedure manual.

All money in the hands of the Council shall be aggregated for the purpose of treasury management and shall be under the control of the Director of [Finance Resources](#).

In respect of the signing of documents relating to borrowing/investments, this may only be carried out by authorised signatories of the Council.

***Responsibilities***

The **Director of [Finance Resources](#)** will:

- ❖ Ensure compliance by treasury staff with the treasury management policy statement and that the policy statement complies with the law
- ❖ Be satisfied that any proposal to vary the treasury policy or practice complies with the law or any code of practice
- ❖ Undertake regular reviews of the treasury management function with the [Financial Services Manager/Head of Financial Services](#) throughout the year
- ❖ Liaise with the [Financial Services Manager/Head of Financial Services](#) and treasury management staff on treasury management decisions
- ❖ Ensure that there is an adequate internal audit function
- ❖ Act as authorised signatory of the Council.

The **[Financial Services Manager/Head of Financial Services](#)** will:

- ❖ Prepare the Council's treasury management strategy
- ❖ Liaise with the Director of [Finance Resources](#) and treasury management staff on treasury management decisions

- ❖ Manage the overall treasury function
- ❖ Ensure that the treasury management systems document is reviewed at least annually
- ❖ Ensure that the organisation of the treasury management function is adequate to meet current requirements
- ❖ Ensure that staff involved in treasury management are adequately trained
- ❖ Ensure that all treasury staff are aware of the Bank of England's current version of the London Code
- ❖ Supervise the treasury management staff
- ❖ Ensure appropriate segregation of duties
- ❖ Ensure elected members receive appropriate reports
- ❖ Act as authorised signatory of the Council.

The **Senior Accountant** will:

- ❖ Ensure that day to day activities accord with the treasury management policy statement
- ❖ Implement the treasury management systems document
- ❖ Ensure compliance with policies, limitations and directions
- ❖ Supervise other treasury management staff
- ❖ Produce an annual report of the previous year's treasury management operations by 30 September of the following year
- ❖ Produce regular performance reports.

The **Accounting Technician** will:

- ❖ Maintain cover in the absence of a senior accountant, under the supervision of the [Financial Services Manager/Head of Financial Services](#).

**Internal Audit** will:

- ❖ Review compliance with the approved policy and procedures
- ❖ Review division of duties and operational practice
- ❖ Assess value for money from treasury activities
- ❖ Undertake the probity audit of the treasury function.

**Policy and Finance Committee** will:

- ❖ Approve local borrowing limits
- ❖ Approve the treasury management policy
- ❖ Receive an annual report on the treasury management strategy before the start of the financial year



- ❖ Receive an annual report by 30 September of the following year on the treasury management activity for the proceeding year
- ❖ Receive other periodic reports on the treasury management function and its performance.

## **Treasury Systems Document**

### **Introduction**

Ribble Valley has adopted a treasury management policy that regulates the framework for the operation, review and performance assessment of the treasury management function. This is in accordance with the Code of Treasury Management for Local Authorities, produced by the Chartered Institute of Public Finance and Accountancy. In accordance with the Code of Practice, a treasury systems document has been prepared as follows.

### **Cash Flow Record**

A daily record of all inflow/outflow of funds is kept on a cleared balance record sheet. These sheets indicate the expected daily cash flow within the Council's two bank accounts which are currently held by the branch office of the HSBC Bank plc, 8 Castle Gate, Clitheroe BB7 1BB. They are known as:

- ❖ General account – Council's income
- ❖ Disbursement account – Council's expenditure

Each morning, after 9.00am, the following information on each of the Council's bank accounts can be obtained by telephone link via the HSBC.net system (separate system notes kept):

- ❖ **Cleared balance (Dr/Cr)** – This represents the opening cleared balance on each of the two bank accounts
- ❖ **Auto Credit Clearing (+)** – This represents the direct credits received by Ribble Valley
- ❖ **Auto Debit Clearing (-)** – This represents the direct debits payable by Ribble Valley
- ❖ **Float Details (+)** – This represents the cheques received by Ribble Valley which are to be cleared on that day and the next
- ❖ **Projected Balance at Close (Dr/Cr)** – this represents the estimated cleared closing balance on each of the two bank accounts.

By combining the information on each of the bank accounts a projected closing balance can be obtained. However, this projected balance figure will exclude any cash payments that Ribble Valley has banked on the previous day. Therefore, the previous day's cash banking needs to be added to give a more accurate estimate of the Council's current bank position. This can be obtained from the Council's bank paying-in book, which is kept in the collection office. It is usually available at approximately 9.15am.

An indication of whether a temporary investment or loan needs to be arranged can therefore be obtained from this estimated current bank position if surplus funds or a deficit of funds is indicated.

In addition to the day's cash banking, the previous days cheques banking can be obtained from this same book. A record of these figures is kept to indicate the expected float items figure for the following two days. This can therefore be checked against the actual float details. It should be noted that it takes five working days for cheques to clear.

## ***Direct Credit Receipts***

An anticipated direct credit figure can often be identified before the actual receipt date. The reason being that the majority of the direct credits received are generated either by ourselves or by grant payments. They can therefore be entered onto the cleared balance sheets as anticipated income on the particular day they are expected and then checked against actual income on the day of receipt.

These figures are obtained either from a written confirmation from a government department in respect of grants receivable or in-house from the sections for whom the credits are being generated. Examples of in-house generated items are:

- ❖ NNDR receipts; and
- ❖ Council tax receipts.

Examples of external grant receipts are:

- ❖ Council tax transitional reduction scheme grant; and
- ❖ Revenue support grant etc.

## ***Direct Debit Payments***

In a similar fashion to the direct credit receipts, the majority of the direct debit payments can be anticipated prior to the date of payment. Again, these are either generated by ourselves or are collected by external bodies as per an agreement. They can therefore be entered onto the cleared balance sheets as anticipated expenditure on the particular day they become due for payment and can then be checked against the actual payment made. Examples of in-house generated items are:

- ❖ Salaries; and
- ❖ [Wages-Trade Creditor Payments](#)

Examples of external payments are:

- ❖ LCC precept;
- ❖ Public Works Loan Board; and
- ❖ Government body payments.

## ***Investments***

In accordance with the Council's treasury management policy, any surplus funds identified on the cleared balance sheets can be invested.

The Council is in contact with three money brokers who act on our behalf, together with various other banking institutions. These are:

Tullet Prebon (uk) Ltd	Leeds Building Society
Sterling International Brokers Ltd	Skipton Building Society
Martin Brokers plc	Nationwide Building Society
Yorkshire Building Society	Barclays Bank plc
HSBC Bank Money Market	Santander Uk plc
Bank of Scotland	Bradford & Bingley Bank plc

The telephone numbers for each, together with a contact name, is kept with the records of current investments in the cash flow file (held by senior accountant).

### ***Method for Making an Investment***

Once surplus funds have been identified contact is made with one of the above to arrange for these funds to be invested.

Monies can be invested at the current interest rates applicable at the time, for various periods which range from call, two day notice, seven day notice or for a fixed term to an agreed future date. It is usual that any monies invested with the money market, ie via the brokers, is left for a minimum period of a week. In addition to this restriction, any monies placed on the money market can only be recalled as a whole, ie the amount invested.

The period of investment will depend on the anticipated cash flow therefore any anticipated income and expenditure should be taken into account before the investment is made. It should be noted that the following notice is required for any repayment of monies:

- ❖ Call – same day
- ❖ Two days – two working days notice
- ❖ Seven days – seven working days notice
- ❖ Fixed – as agreed

**Investment with a Broker**

Once a broker has been contacted with the details of the amount and notice period we require for the investment it can be placed “under reference” with this broker as well as an alternative broker. The broker that is first to succeed in placing the monies in accordance with our treasury management policy receives our business.

Details of the counter parties to whom our monies are being lent to are given by the broker and recorded on a temporary investment sheet, they include:

- ❖ Name of borrower;
- ❖ Borrower’s bank details, including sort code and account number;
- ❖ Amount to be invested;
- ❖ Term of investment, ie call, fixed etc; and
- ❖ Rate of interest payable by the borrower.

It should be noted that the interest rate is changeable other than fixed term investments.

Once details have been received an electronic fund transfer (EFT) can be made via the HSBC.net system (separate system notes kept). This transfers funds from our disbursements bank account to the counter party’s bank account.

***It should be noted that the Head of Financial Services and the Director of Finance Resources, (or in their absence the Chief Executive), needs to sign the authorisation sheet obtained from the HSBC.net system.***

A “no cheque” creditor voucher should be prepared to charge the investment amount to the general ledger fund.

Details of the investment should also be recorded in the investment register.

**Investment with the HSBC Bank Money Market**

Another alternative method of placing surplus funds is with the money market team of our bank.

The procedure is as before with the exception that no EFT is necessary to our branch. A transfer is made from our disbursements account by FX system direct on the HSBC.net system. It should be noted that the Head of Financial Services and the Director of Finance Resources, (or in their absence the Chief Executive), sign the transaction sheet obtained from the HSBC.net system on the day the transaction takes place.

**Investment with other Banking Institutions**

Funds can be invested direct with other banking institutions. Funds can only be placed on fixed terms with these institutions. The minimum investment depends on the institution. Once terms have been agreed the procedure for transferring funds is as before.

## ***Repayment of Investments***

If the investment needs to be repaid the necessary notice needs to be given to the particular counter party, either direct in the case of investments held by the various banking institutions or via the relevant broker if the investment was made on the money market.

All repayments should be made automatically on the relevant day direct to our general bank account. Investments made with the HSBC Bank can only be returned to the same account from which they were originally debited, ie the disbursement account. Therefore, a transfer is required between the two accounts (separate system notes kept). The HSBC.net system will indicate receipts received during the day by EFT. Therefore this should be checked on a regular basis until all funds have been accounted for.

The repayment date is recorded on the temporary investment sheet and in the investment register. The amount of interest due should be calculated and also entered on these records. Once the monies are credited to our bank account the collection office will credit these amounts to the relevant general ledger account code from the bank statements (they require the split between the principal and interest paid).

The internal audit section requires these completed records on a monthly basis to carry out a relevant audit.

## ***Temporary Loans***

If a deficit cash balance is estimated on the cleared balance sheet it may be necessary to arrange for a temporary loan. The Council has a small overdraft facility of £50,000 with the bank, although it is prudent not to allow large deficit cash balances to occur. An agreed maximum limit for short-term borrowing is set annually.

### ***Arranging a Temporary Loan***

A temporary loan can be made via our brokers in a similar fashion to making an investment. Details of the counter parties are received by telephone from our brokers who arrange for the monies to be credited direct to our bank account. The branch office will usually confirm when the monies are received, if so requested. The monies will appear on the Council's bank statements and the collection staff will credit the amount to the appropriate general ledger code.

A record of the loan is made on a temporary loan sheet and in the loans register. A confirmation letter is sent direct to the counter parties confirming the loan details.

### ***Repaying a Temporary Loan***

Once there are sufficient funds available to repay the loan the relevant broker should be contacted to inform the counter parties of the repayment, as per the original agreed terms of the loan.

Interest due on the loan should be calculated and entered on the temporary loan sheet and in the loans register. The loan, including interest, can then be repaid by electronic fund transfer using the HSBC.net system.

A confirmation letter should be sent direct to the counter parties indicating how interest due was calculated, and a “no cheque” voucher for principal and interest to ensure the amounts are charged to the relevant general ledger account.

## ***Final Estimated Cash Balance***

If a temporary investment is placed or repaid, and similarly if a temporary loan is received or repaid, a record of the transaction is made on the cleared balance sheet and added or deducted, as relevant, to give an estimated final cleared balance at the end of the day which can be compared with the opening balance on the following day.

## ***Long-Term Borrowing***

Each year the Council’s borrowing requirements are analysed and an appropriate borrowing strategy produced. This has to be approved by Policy and Finance Committee at the start of the financial year.

Generally long-term borrowing, which is classified as borrowing for a period of between 1-60 years, is normally only used to finance capital expenditure or replace maturing debt.

The Council currently has a policy that limits the methods of raising finance and an annual maximum limit for long-term borrowing. It is usual that long-term borrowing needs are met from the Public Works Loan Board (PWLB). This has been because PWLB interest rates:

- ❖ Are below money market rates;
- ❖ Loans are generally available for longer periods; and
- ❖ PWLB commission rates are minimal.

## ***PWLB Borrowing***

### ***Application for Loans***

Applications should be made by telephone on 0171 270 3873. The board will normally advance loans within approximately 48 hours of the receipt of a formal application (excluding weekends and bank holidays). Advances are made in accordance with the following timetable:

**Receipt of Application Agreement of Terms**~~Friday pm/Monday am~~Monday~~Monday pm/Tuesday am~~Tuesday~~Tuesday pm/Wednesday am~~Wednesday~~Wednesday pm/Thursday am~~Thursday~~Thursday pm/Friday am~~Friday**Advance of Loan**

Wednesday

Thursday

Friday

Monday

Tuesday

At the time a loan is requested the Council is required to supply the following information:

- ❖ Sum required
- ❖ Method of repayment
- ❖ Repayment period
- ❖ Date of advance
- ❖ Type of loan (fixed or variable)
- ❖ Interest payment dates or interest payment period
- ❖ Maturity date (if applicable)
- ❖ The Council's borrowing limits under the prudential code

All the above information is usually supplied by the ~~Financial Services Manager~~ Head of Financial Services who generally would make any application.

At the time the loan application is approved the time is agreed and the name of the contact at the board is supplied.

The monies will be credited to the Council's bank account on the appropriate day less a loan fee. A schedule of the loan agreement will also be supplied, the details of which should be checked against the application and then entered onto the spreadsheet of PWLB loans (separate system notes available).

***Reconciliation***

A quarterly reconciliation is made between transactions in the general ledger and transactions recorded in the investment and loans register and PWLB spreadsheet.