

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

Agenda Item No 8

meeting date: 28 MARCH 2017
title: TREASURY MANAGEMENT POLICIES AND PRACTICES 2017/18
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 To review, approve and adopt the treasury management policy statement and practices for 2017/18.

2 BACKGROUND

- 2.1 The Treasury Management Policies and Practices document governs the way we manage our investments. It is reviewed on an annual basis to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code. The Code identifies twelve areas where statements of treasury management practices should be developed to implement the full requirements of the Code.

3 TREASURY MANAGEMENT POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

- 3.1 The revised Treasury Management Policy Statement and Treasury Management Practices are shown at Appendix 1 within the Treasury Management Policies and Practices document.
- 3.2 The Treasury Management Policy Statement follows the wording recommended by the latest edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2011 Edition.
- 3.3 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities
- 3.4 The Treasury Management Practices are split as follows:
- **Key Principles:** *which follow the wording recommended by the revised CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
 - **Schedules:** *which cover the detail of how the Council will apply the key Principles in carrying out its operational treasury activities*
- 3.5 Since the treasury management policy statement and treasury management practices were approved in April 2016, there has been a number of minor updates made to the Schedules within the Treasury Management Policies and Practices document and are highlighted accordingly.

4 RECOMMENDED THAT COMMITTEE

4.1 Review, approve and formally adopt the Treasury Management Policies and Practices document as attached at Appendix 1, incorporating the

- Treasury Management Key Principles
- Treasury Management Policy Statement
- Treasury Management Clauses
- Treasury Management Practices and Schedules

4.2 Recommend to Council the Treasury Management Policies and Practices 2017/18.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF20-17/TH/AC
14 March 2017

BACKGROUND PAPERS:

CIPFA Treasury Management in the Public Services – Code of Practice and Cross – Sectoral Guidance Notes 2011 Edition



Ribble Valley
Borough Council

www.ribblevalley.gov.uk

Treasury Management Policies and Practices: 2017/2018

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Introduction

Local authorities' treasury management activities are prescribed by statute. The sources of their powers, in England and Wales, are the Local Government Act 2003.

Essentially a local authority in England and Wales may borrow or invest for any purpose relevant to its functions, under any enactment, or '*for the purposes of the prudent management of its financial affairs*'.

Under the Act a local authority is required to determine and keep under review how much money it can afford to borrow and may only borrow only in sterling (except with the consent of HM Treasury)

Local authorities are not constrained by law in the types of investments they can make or the investment instruments they may use. However, they are in practice constrained by Communities and Local Government (DCLG) guidance (updated in 2010), which stress the prudent investment strategy of security, liquidity and yield. This means that first and foremost local authorities must ensure the security of their principal sum invested. i.e. ensure that they get back their full investment. Then they should ensure that they have the liquidity they need and so should consider the length of an investment. Only when these two are satisfied should the yield or return on the investment be considered.

Under the Local Government Act 2003 and also the Local Authorities (Capital Finance and Accounting) Regulations 2003, the Council is required to have regard to the CIPFA Treasury Management Code of Practice (2011) (The Code) and the associated guidance.

Under The Code the Council is required to formally adopt a number of Clauses and also to adopt a formal treasury management policy statement within this document, which defines the policies and objectives of its treasury management activities. Furthermore The Code recommends that the Council follows a set of Treasury Management Practices in carrying out its treasury management activities. All of these items are outlined over the following sections.

Key Principles

The CIPFA Treasury Management Code of Practice (2011) identifies three key principles. In framing these three principles, or recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. Even though it dates back to 1991, CIPFA considers that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI closure is still pertinent, wherein it was stated that:

In balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns.

KEY PRINCIPLE 1:

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.

KEY PRINCIPLE 2:

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.

KEY PRINCIPLE 3:

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.

Treasury Management Clauses

CIPFA recommends that all public service organisations adopt, as part of their treasury management policies the following four clauses:-

1. 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.

2. 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
3. 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*.

4. Ribble Valley Borough Council nominates the Policy and Finance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

This Council defines its treasury management activities as:

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

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Treasury Management Practices

CIPFA's Code of Practice on Treasury Management recommends that suitable treasury management practices (TMPs) are maintained, setting out the manner in which the council will seek to achieve the policies, objectives and approach to risk management of its treasury management activities. The code identifies twelve areas where statements of treasury management practices should be developed.

TMP 1: Risk Management

General Statement

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

i) Credit and counterparty risk management

This council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, method and techniques referred to in TMP 4 Approved instruments methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

ii) Liquidity risk management

This council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

This council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

iii) Interest rate risk management

This council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP 6 Reporting requirement and management information arrangements.

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

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

iv) Exchange rate risk management

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

v) Refinancing risk management

This council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the council as can reasonably be achieved in the light of market conditions prevailing at the time.

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

vi) Legal and regulatory risk management

This council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP 1 (i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the council, particularly with regard to duty of care and fees charged.

This council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

vii) Fraud, error and corruption, and contingency management

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

viii) Market risk management

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

TMP 2: Performance measurement

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

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

TMP 3: Decision-making and analysis

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

TMP 4: Approved Instruments, method and techniques

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

Where the council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements

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

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

If and when this council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP 6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

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

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

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP 6: Reporting requirements and management information arrangements

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

As a minimum:

The council will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the council's treasury management policy statement and TMPs.

The Policy and Finance Committee will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such as audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

The Council will report the treasury management indicators as detailed in the sector specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP 7: Budgeting, accounting and audit arrangements

The responsible officer will prepare, and this council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP 2 Performance measurement, and TMP 4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements.

This council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8: Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP 9: Money laundering

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

TMP10: Training and qualifications

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

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

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

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

TMP11: Use of external providers

This council recognises that responsibility for treasury management decisions remains with the council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such services providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review. And it will ensure, where feasible and necessary, that a spread of service providers, is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rest with the responsible officer and details of the current arrangements are set out in the schedule to this document.

TMP12: Corporate governance

This 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.

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

SCHEDULE A

TMP 1: Risk Management

CREDIT AND COUNTERPARTY RISK

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations to the council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

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

As a holder of public funds, the Council recognises its prime responsibility is the security of the principal of the sums which it invests. Consequently, it will optimise returns commensurate with the management of the associated risk.

The Council will determine through its Annual Investment Strategy the credit criteria for various investment instruments.

The credit rating of counter parties is monitored regularly. Any counter party failing to meet the criteria will be removed from the list immediately and, if required, new counter parties, which meet the criteria, will be added to the list.

Principally, Fitch credit ratings are monitored and are used as an indication of the probability of organisations defaulting on our investments. In addition, the rating given by rating agents Standard and Poor, and Moody's are also considered prior to an investment. Whilst they only show an indication of the current credit position, they are being monitored on a regular basis and any significant changes will be reported to Policy and Finance Committee. It has previously been approved that investments with Building Societies be limited to the top 8 building societies based on their total assets.

The banks the Council use are reviewed annually as part of the Treasury Management policies and practices to take into account their Fitch IBCA long-term and short-term credit rating.

The Council has a policy to only use institutions with a short term Fitch rating of F2 or above

In addition to the Building societies and banks we use for investments, also approved for use is the United Kingdom Debt Management Office, where the Government guarantees investments.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested with these bodies. This criterion is also specified within the approved counter party criteria.

LIQUIDITY RISK

Liquidity risk is the risk that cash will not be available when it is required, that ineffective management of liquidity creates additional unbudgeted costs, and the Council's business/service objectives will be thereby compromised. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council will therefore have sufficient stand by facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. It will also seek to ensure that its cash flow forecasting gives as accurate a picture as possible of the changes in income and expenditure and the resulting residual daily cash balances.

Amounts of approved minimum cash balances and short-term investments

It is the intention to minimise cash balances held overnight, and for short-term investments to be made in order to fulfil the projected net cash flow requirement.

- **Standby Facilities:** Any funds held on call notices should not exceed 25% of the total amount invested at any one time and a maximum of £500,000.
- **Bank overdraft arrangements:** The council does not have an agreed overdraft facility and instead relies on the stringent cash flow projections.
- **Short-term borrowing facilities:** 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.

INTEREST RATE RISK

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by reviewing forecasts of interest rates. It will also determine appropriate limits and trigger points as set out below. These limits and strategy are set out in the annual Treasury Management Strategy. This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

| LIMITS ON INTEREST RATE EXPOSURE | | | |
|---|-------------------------|-------------------------|-------------------------|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
| Maximum Principal Sums Borrowed >364 days | 6,976 | 6,980 | 7,997 |
| Limits on fixed interest rates | 100% | 100% | 100% |
| Limits on variable interest rates | 20% | 20% | 20% |

EXCHANGE RATE RISK

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it does not enter into loans or investments in foreign currency for treasury management purposes.

At this time the Council does not get involved in any other significant foreign currency transactions. These are limited to a very small number of invoice payments.

REFINANCING RISK

Refinancing risk is the risk that when maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

Debt/other capital financing maturity profiling, policies and practices

The total debt, comprising both PWLB and a bond, is summarised in the table below, showing the estimated debt maturity assuming no further borrowing is undertaken. The council has no current plans to refinance its debt.

| Original loan Amount £ | Term | Interest Rate | Estimated Principal Outstanding at 31 March 2017 £ | Year of Final Repayment |
|---------------------------|----------|-------------------|---|-------------------------|
| 250,000 | 10 years | 4.60% Fixed | 12,500 | 2017/18 |
| 250,000 | 15 years | 4.75% Fixed | 2,164 | 2022/23 |
| 250,000 | 25 years | 4.88% Fixed | 155,000 | 2032/33 |
| | | Total PWLB | 169,664 | |

Projected capital investment requirements

[In accordance with the Prudential Code for Capital Finance in Local Authorities](#), the Director of Resources has prepared a three year plan for capital expenditure for the Council.

The use of borrowing to support the capital programme has been ~~kept increased from an average of £79,187 in the financial years 2016/17 to 2018/19~~ to an average of ~~£79,187~~ ~~£418,337 in the financial years 2017/18 to 2019/20~~, in line with recommendations from the council's Budget Working Group and as approved by Policy and Finance Committee.

~~This will be met from internal borrowing and it is not forecast. It is forecast that there may be a need for an increase in external borrowing to support the currently approved capital programme.~~

A summary of the approved capital programme and its financing are provided in the table below

| | 2017/18 £ | 2018/19 £ | 2019/20 £ |
|---|-------------------|-----------------|-------------------|
| Borrowing | -250,010 | 0 | -1,230,000 |
| Disabled Facilities Grants - DCLG | -161,000 | -161,000 | -161,000 |
| New Homes Bonus Earmarked Reserve | -242,000 | -209,000 | -313,600 |
| VAT Shelter Earmarked Reserve | -234,000 | -69,500 | -127,880 |
| Other Earmarked Reserves | -241,300 | -466,500 | -96,020 |
| Usable Capital Receipts | 0 | 0 | -89,080 |
| Potential External Funding for Castle Keep Repointing | 0 | 0 | -222,240 |
| Estimated Total Available Resources | -1,128,310 | -906,000 | -2,239,820 |

| | 2017/18 £ | 2018/19 £ | 2019/20 £ |
|--|-----------------|-----------------|-----------------|
| Less Total of Approved Capital Programme | 1,128,310 | 906,000 | 2,239,820 |
| <i>Estimated Resources to Carry Forward</i> | <i>0</i> | <i>0</i> | <i>0</i> |

Policy concerning limits on affordability and revenue consequences of capital financing

The policy is considered on an annual basis. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

The Council will use the definitions provided in the Prudential Code for borrowing, capital expenditure, debt, financing costs, investments, net borrowing, net revenue stream and other long term liabilities.

LEGAL AND REGULATORY RISK

Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

References to relevant statutes and regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council.

Procedures for evidencing the Council's powers and authorities to counterparties and the required information from Counterparties concerning their powers and authorities

The Council will provide written evidence of its powers and authorities to any counterparty that requests us to do so. Counterparties will also provide their details to the Authority as a matter of course.

The Council's powers to borrow and invest are contained in legislation.

- Investing: Local Government Act 2003, section 12
- Borrowing: Local Government Act 2003, section 1

Lending shall only be made to counterparties on the Approved Lending list.

Statement on the Council's political risks and management of same

~~The Director of Resources shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council and change of Government.~~

The Council recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

The monitoring officer is the Head of Legal Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

The Chief Financial Officer is the Director of Resources; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if they have concerns as to the financial prudence of its actions or its expected financial position.

FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT RISK

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will therefore:-

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Details of systems and procedures to be followed, including internet services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are approved by the Director of Resources or the Head of Financial Services, or in the absence of both, the Chief Executive.
- Procedures are defined in the Council's Financial Regulations.

Procedures

- Detailed procedure notes are maintained on all of the treasury management functions. The current treasury management and systems document is attached at Annex1.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained.
- Any transaction discrepancies are immediately reported to the broker or counterparty for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the broker or counterparty for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The Cash flow sheets prompt the officer dealing with the daily cash flow that money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- There is a separation of duties in the section between dealers and the checking and authorisation of deals.
- The Council's bank holds a list of Council officials who are authorised signatories.
- There is adequate insurance cover for employees involved in treasury management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- A debt charge/investment income listing is monitored every month against the budget for interest earnings and debt costs.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy manually.

There are also annual Internal Audit reports on the Treasury Management function.

Emergency and contingency planning arrangements

The Council will ensure that written procedures are in place and kept up to date for such situations, for both the Emergency Plan and the Business Continuity Plan.

Insurance cover details

The Authority has a Fidelity Guarantee policy with Zurich Municipal Insurance. This provides cover to the value of ~~£2,000,000~~ £5,000,000. This covers the loss of cash by fraud, or the dishonesty of employees six designated officers dealing with the treasury management function. All other employees officers are covered to the value of £250,000.

There is also a Business Interruption policy with Zurich Municipal Insurance. This provides cover for the costs of re-establishing the Council's operations in the event of the normal operational facilities being unavailable.

MARKET RISK

Market risk is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effect it has failed to protect itself adequately.

Details of approved procedures and limits for controlling the Council's exposure to investments / borrowing whose capital value may fluctuate (Gilts, CDs, and Lender's Option Borrower's Option (LOBO) etc.)

These are controlled through setting limits on investment and borrowing instruments where the principal value can fluctuate. The limits would be determined and set through the Annual Investment Strategy, which forms part of the council's Treasury Management Strategy. However, the Council has no investments / loans of this nature at the current time, and has no plans to do so in the near future.

SCHEDULE B

TMP 2: Performance measurement

Evaluation and review of treasury management decisions

The Council has a number of approaches to evaluating treasury management decisions: -

- **Day to day reviews during the financial year:** *The Director of Resources or the Head of Financial Services review all treasury management activity and decisions on a daily basis. This includes ensuring that any activity operates within the boundaries set out within this document and the Treasury Management Strategy.*
- **Annual review after the end of the financial year:** *An annual treasury report is submitted to the Policy and Finance Committee each year after the close of the financial year which reviews the performance of the treasury management activity over the financial year. This report includes coverage on the areas of:*
 - Any borrowing requirements in the year
 - Investments made
 - Performance against the prudential indicators
- **Quarterly Review:** *The annual review is supplemented by quarterly submissions of monitoring reports to Policy and Finance Committee. These reports include coverage on the areas of:*
 - Any borrowing requirements in the year
 - Investments made to date
 - Performance to date against the prudential indicators
 - A review of the approved organisations
- **Comparative reviews:** *When data becomes available, comparative reviews are undertaken to see how the performance of the function compares to other authorities. This is generally a comparison to other Lancashire councils, and the CIPFA Treasury Management statistics published each year for the last complete financial year*

Policy concerning methods for testing value for money in treasury management

Banking services

Banking services will be retendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends. The current agreement is for the period 2013~~6~~/16~~7~~

Money-broking services

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

Methods to be employed for measuring the performance of the Council's treasury management activities

This will include a comparison with other councils through the CIPFA Prudential Indicators return and also through comparison exercises periodically carried out between Lancashire councils. Additionally performance will be measured by comparing the interest earned on investments against budgeted income.

Benchmarks and calculation methodology with regard to risk and return

Debt management

The council currently have a comparatively low level of debt. This is particularly following the housing stock transfer a number of years ago.

Investment

The performance of investment earnings will be measured against budgeted investment income.

SCHEDULE C

TMP 3: Decision-making and analysis

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

There shall be no restriction on the sources of borrowing with the exception of any statutory restriction.

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

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

Records to be kept

The team keep records of all investment and loan transactions. The following records will be retained:

- Daily cash balance forecasts
- Dealing records for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly

Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer best value)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average rate, investment returns, etc.).

Issues to be addressed.

In respect of every decision made the Council will:

- Above all be clear about the nature and extent of the risks to which it may become exposed
- Be certain about the legality of the decision reached and the nature of the transaction, and that any authority to proceed has been obtained
- Be content that the documentation is adequate both to deliver the organisation's objectives and protect the its interests, and to deliver good housekeeping
- Ensure that counterparties are judged satisfactory in the context of the its creditworthiness policies, and that limits have not been exceeded
- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Council will:

- Evaluate the economic and market factors that might influence the manner and timing of any funding decision.
- Consider the merits of alternative forms of funding, including options such as funding from revenue and leasing and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to borrow and repayment profiles to use.
- Consider the on-going revenue liabilities created, and the implications for the council's future plans and budgets.

In respect of investment decisions, the Council will:

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

In respect of decisions regarding derivatives, the Council will:

- Be able to demonstrate that the derivative transaction has reduced the Council's overall exposure to treasury risks. (The Council has no transactions of this nature at the current time, and has no plans to do so in the near future.

SCHEDULE D

TMP 4: Approved Instruments, method and techniques

Only the approved organisations for investment shown will be used. 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 Resources and, through them, to their staff in exceptional circumstances.

Specified investments

These investments are sterling investments of not more than one-year maturity. These are low risk assets and the possibility of loss of principal or investment income is very low. The investments are defined as:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
- A local authority, parish council or community council.
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). These bodies will have a minimum rating as set out below.

The monitoring of investment counterparties

The credit rating of counter parties is monitored monthly. Any counterparty failing to meet the criteria will be removed from the list immediately and, if required, new counter parties, which meet the criteria, will be added to the list.

Principally Fitch credit ratings are monitored and are used as an indication of the probability of organisations defaulting on our investments. In addition, the rating given by rating agents Standard and Poor, and Moody's are also considered prior to an investment. Whilst they only show an indication of the current credit position, they are being monitored on a regular basis and any significant changes will be reported to Policy and Finance Committee. It has previously been approved that investments with Building Societies be limited to the top 8 building societies based on their total assets.

The banks the Council use are reviewed annually as part of the Treasury Management policies and practices to take into account their Fitch IBCA long-term and short-term credit rating.

The Council has a policy to only use institutions with a short term Fitch rating of F2 or above. In addition to the Building societies and banks we use for investments, also approved for use is the United Kingdom Debt Management Office, where the Government guarantees investments.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested with these bodies. This criterion is also specified within the approved counter party criteria.

The approved organisations for investment are:

Banks

- Santander UK plc. *
- Barclays Bank *
- Bank of Scotland plc. *
- Co-operative Bank *
- HSBC Bank plc. *
- Lloyds Bank plc. *
- The Royal Bank of Scotland *
- National Westminster Bank *

Building Societies

- Coventry Building Society *
- Leeds Building Society *
- ~~Newcastle Building Society *~~ [Remove - Fitch Rating withdrawn – 07/19/16](#)
- Nationwide Building Society *
- Principality Building Society *
- Skipton Building Society *
- Yorkshire Building Society *

Other

- Debt Management Office **
- Other Local Authorities in the UK ***
- Police and Crime Commissioners, Fire and Rescue Services and Transport Authorities ***

Key

- * Maturity limit for each counter party 365days
- * Maximum limit per institution £1.75m
- ** Maximum limit per institution £5.0m
- *** Maturity limit for each counter party 3 Months
- *** Maximum limit per institution £2.5m

Non-Specified Investments

Non-specified investments include any other type of investments, i.e. not defined as specified above. These are sterling investments with:

- Securities admitted to the Officials List of the Stock Exchange that is guaranteed by the UK Government (such as supranational bonds).
- Gilt edged securities with a maturity of greater than one year.
- Institutions not meeting the basic security requirements under the specified investments.
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) for deposits with a maturity of greater than one year.
- Shareholding in the Local Government Bonds Agency.

At the present time the Council has no immediate plans to invest in non-specific investments other than a maximum share in the Local Government Bonds Agency of £10k.

Approved Investment Instruments

Only the approved instruments as follows will be used.

- European Atomic Energy Community (Euratom)*
- 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.

[*To be kept under review as impact of Brexit unknown](#)

Policy on the Use of Financial Derivatives

Many local authorities have previously made use of financial derivatives embedded in loans and investments both to reduce interest rate risk (i.e. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk. However, previous legislation was understood to prevent the use of such tools where they were not embedded in other instruments.

The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives. The latest CIPFA Code requires local authorities to clearly detail their policy on the use of derivatives in their annual strategy.

The Council has not and does not plan to use derivatives.

Use of External Fund Managers

It is the Council's policy not to use an external fund manager.

SCHEDULE E

TMP 5: Organisation, 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.

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 Resources and, through them, to their staff. Such decisions and actions to at all times are in accordance 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 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 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 Head of Financial Services throughout the year
- Liaise with the Head of Financial Services and treasury management staff on treasury management decisions
- Ensure that there is an adequate internal audit function and liaise with external audit.
- Act as authorised signatory of the Council.

The Director of Resources will also ensure there is proper documentation for all deals and transactions and those procedures exist for the effective transmissions of funds.

The Head of Financial Services will:

- Ensure that the Council's treasury management strategy is reviewed annually.
- Liaise with the Director of 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
- Maintain relationships with counterparties

The Accounting Technician will:

- Maintain cover in the absence of a senior accountant, under the supervision of the 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 adopted clauses, treasury management policy statement and treasury management practices and any amendments.
- 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 preceding year
- Receive other periodic reports on the treasury management function and its performance

- Approve the division of responsibilities

Absence cover

In the instance of absence from any post holder from the above roles, responsibilities will move to the upwards in the organisation hierarchy, unless such responsibilities are seen as reasonable to be delegated downwards by the Director of Resources or Head of Financial Services.

Dealing limits

There are no set dealing limits at an individual post level, however all dealing decisions must be first approved with the Director of Resources or Head of Financial Services

Approved brokers

The Council is in contact with three money brokers who act on our behalf.

Tullet Prebon (uk) Ltd

Sterling International Brokers

Martin Brokers

Policy on taping of conversations

Where dealings are undertaken over the telephone, the conversation detailing the dates, amounts and rates of any deal should where possible be recorded in order to avoid a future dispute on the terms that have been agreed.

SCHEDULE F

TMP 6: Reporting requirements and management information arrangements

Annual review of the treasury management policies and practices

This document will be reviewed annually and reported Policy and Finance Committee

Annual treasury management strategy

The Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Policy and Finance Committee for approval before the commencement of each financial year.

Prudential indicators

As required by the Local Government Act 2003 the following indicators must be set:

- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt as at 31 March of previous year
- Upper limit on fixed interest rate exposures
- Upper limit on variable interest rate exposures
- Upper and lower limits for the maturity structure of borrowing
- Prudential limits for principal sums invested for longer than 364 days

Should it prove necessary to amend these limits, the Director of Resources will submit the changes for approval to Policy and Finance Committee, before submission to Full Council for approval.

Annual report on treasury management activity

An annual report will be presented to the Policy and Finance Committee at the earliest practicable meeting after the end of the financial year. This report will include the following:

- Any borrowing requirements in the year
- Investments made
- Performance against the Prudential Indicators

Quarterly review of treasury management activity

The annual review is supplemented by quarterly submissions of monitoring reports to Policy and Finance Committee. These reports include coverage on the areas of:

- Any borrowing requirements in the year
- Investments made to date
- Performance to date against the Prudential Indicators
- A review of the approved organisations

Management information reports

Investment income performance is reported to the Corporate Management Team as part of the budget monitoring process

SCHEDULE G

TMP 7: Budgeting, accounting and audit arrangements

Statutory/regulatory requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting, which is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services – Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

Accounting practices and standards

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities.

List of information requirements of external auditors

Each year the External auditors provide the council with its closedown working paper requirements. These are summarised below.

Investments (short and long term)

- Working paper identifying the analysis of investments held throughout the period reconciled to the balance sheet. This should also show the interest received on each investment and should reconcile to the Comprehensive Income and Expenditure statement.
- Full schedule of short and long term investments including market value and book value. An audit trail to prime documentation should be available.
- Third party confirmation of the closing balance for investments.
- Copies of the Treasury Management and Investment Strategies. Minutes showing approval of movement of investments where applicable and linked to financial instrument disclosures in the financial statements.
- Copy of investment register to show all amounts invested and interest received.
- Copy of working papers showing details of any discounts or premiums arising from early redemption of loans and associated accounting entries. Evidence to support the appropriate discount basis has been used, any statutory overrides and any posting to the Financial Instruments Adjustment Account.

External borrowing and capital controls

- Analysis of loans payable, finance leases and PFI obligations at 31 March reconciled to the financial ledger and statement of accounts.
- Details of transactions >£350k in the year (repayments and new loans). Supporting evidence should be available on demand.
- Working papers showing calculation of Capital Financing Requirement and the link to the Minimum Revenue Provision.

Financial instruments

- Working paper cross referenced to supporting schedules for loans and receivables, available for sale financial assets, unquoted equity investments at cost, financial assets at fair value (which have gone through profit or loss), financial liabilities at amortised costs, financial liabilities at fair value (which have gone through profit or loss) and any impairment losses.
- Evidence of interest rates disclosed in the note, along with total interest income and total interest expense, including any interest accrued on impaired financial assets.
- Evidence of review of departments for Financial Instruments disclosures (Guarantees, embedded derivatives, long term Receivables).

Investments in Icelandic banks

- Disclosure of estimation uncertainty. Working papers to support the basis for management's estimation of recoverability, including legal advice where relevant.

SCHEDULE H

TMP 8: Cash and cash flow management

The cash flow forecast for the council is prepared on a daily basis, with a forward forecast included for anticipated major receipts and payments in order to assist in investment decisions.

Cash Flow Forecast Procedure

A daily record of all inflows/outflows of funds is kept on a cleared balance record sheet. These sheets indicate the expected daily cash flow within the Council's two main 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 the following information on each of the Council's bank accounts can be obtained using the internet from HSBCnet (a separate system guidance note is kept up to date):

- **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 the council*
- **Auto Debit Clearing (-)** *This represents the direct debits payable by the council*
- **Float Details (+)** *This represents the cheques received by the council 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. [A daily automated transfer is carried out by HSBC between the general and disbursement account to cover all transactions on the disbursement account.](#)*

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 have been banked by the council on the previous day. Therefore, the previous day's cash banking can be added to give a more accurate estimate of the Council's bank position. This is obtained from the Council's bank paying-in book, which is kept in the collection office.

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 previous day's cash banking, the previous day's cheques banking and details of online and electronic payments can be obtained from the collection office. A record of these figures is kept to indicate the items expected to clear in the bank account for the following two days. It should be noted that it can take up to 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 as an anticipated cash inflow. These are also then checked against actual income on the day of receipt.

These figures are generally obtained either from a written confirmation from a government department in respect of grants receivable, such as revenue support grant, or in-house from the sections for whom the credits are being generated. Examples of in-house generated items are processed direct credit receipts for such items as NNDR, council tax and sundry debts:

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, such as the LCC precept or PWLB repayments. 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 trade creditor payments.

Payment scheduling and agreed terms of trade creditors

The direct credits and debits generated by the council are scheduled to occur on set dates, which move only in respect of bank holidays and weekends.

Direct debit payments

- Salaries and Members allowances: *15th day of the month*
- Trade Creditors: *every Monday*
- Benefit payments: *every Monday*
- Council tax refunds: *every Wednesday*

Direct credit receipts

- Council tax payments: *the last day of the month*
- NNDR payments: *28th of the month*
- Sundry debtor payments: *30th of the month*

The terms of payment for the council's trade creditors are generally within 30 days of receipt of invoice, unless specific terms have otherwise been agreed.

Banking of funds

All payments to the council must be paid in to the central collection office as soon as possible after receipt. Income is banked by the collection office on a daily basis using a third party contractor.

SCHEDULE I

TMP 9: Money laundering

Procedures for establishing identity/authenticity of lenders

The council does not accept loans from individuals

Methodology for identifying sources of deposits

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.org.uk.

All transactions will be carried out by CHAPS for making deposits or repaying loans.

Proceeds of Crime Act 2002 (POCA)

The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the act to submit a Suspicious Activity Report to the National Crime Agency (www.nationalcrimeagency.gov.uk) if it knows or suspects that a person is engaged in, or attempting, money laundering.

The Money Laundering Regulations 2007

The money laundering regulations require all firms undertaking certain financial activities (see Schedule 1 of regulation) to apply risk-based customer due diligence measures and other steps to prevent your services from being used for money laundering or terrorist financing.

The Principal Auditor has been nominated the council's money laundering reporting officer and in their absence, the Head of Financial Services. The council will also train the following staff in being diligent to be alert for suspicious transactions: -

- treasury management
- collection office
- other staff as seen appropriate

Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, and if doubts remain, these transactions will then be reported to the National Crime Agency.

SCHEDULE J

TMP10: Training and qualifications

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Performance Appraisal system which aims to identify the training requirements of any individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Director of Resources together with the Head of Financial Services, to ensure that all staff involved in the service receives the necessary training.

Details of approved training courses

Treasury Management courses run by such bodies as CIPFA, money brokers, or other recognised bodies.

Training and qualifications of treasury staff

- Chief Executive - CIPFA Qualified
- Director of Resources – CIPFA Qualified
- Head of Financial Services – CIPFA Qualified
- Senior Accountant – Part CIPFA Qualified
- Accounting Technician – AAT Qualified

Training of those charged with governance

Training will be provided for those elected members sitting on the Policy and Finance Committee. Detailed explanations of all reports are given, as they are scrutinised by committee, by the Director of Resources in order to ensure full understanding.

SCHEDULE K

TMP11: Use of external providers

Details of contracts with service providers, including bankers, brokers, consultants and advisers

Bankers

Name of supplier of service is HSBC Bank plc.

Money-broking services

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The brokers used are listed at schedule E – *TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements*. None of these services are under formal contracts and are used only on an ad-hoc basis.

Consultants'/advisers' services

The Council do not have any contracted services, or use, external consultants or advisers

Procedures and frequency for tendering services

Banking services

Banking services will be retendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends. The current agreement is for the period 201~~36~~/1~~67~~

SCHEDULE L

TMP12: Corporate governance

List of documents to be made available for public inspection

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection via Council website or in person:

- Treasury Management Policy Statement
- Treasury Management Strategy
- Annual Treasury Report
- Quarterly Monitoring Report
- Annual Statement of Accounts
- Revenue and Capital Budget
- Agendas and minutes of all committee meetings.

Treasury Management and 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 9.30am.

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 day's cheques banking and details of online and electronic payments can be obtained from the collection office. 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 three 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 as an anticipated cash inflow. These are also then checked against actual income on the day of receipt.

These figures are generally obtained either from a written confirmation from a government department in respect of grants receivable, such as revenue support grant, or in-house from the sections for whom the credits are being generated. Examples of in-house generated items are processed direct credit receipts for such items as NNDR, council tax and sundry debts:

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, such as the LCC precept or PWLB repayments. 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 trade creditor 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.

Tullet Prebon (uk) Ltd
Sterling International Brokers
Martin Brokers 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, and seven day notice or for a fixed term to an agreed future date. It is usual that any monies invested with the money market, i.e. 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, i.e. 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 be 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, i.e. 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 Resources (or in their absence the Chief Executive), needs to sign the authorisation sheet obtained from the HSBC.net system.

A “direct banking transaction” 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 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, i.e. 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. This will depend on the deficit and the charges made by HSBC on the deficit as the council no longer has an overdraft facility. 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 020 7862 6610 by staff previously nominated by the Director of Resources. The Council must submit its lists of names on a single form, Local Authority Authorisation form, available from the Board's website. (pwlb.gov.uk). Where nominations are to be refreshed a new, complete list of names is required. The form may also be used to nominate signatories authorised to notify details of a receiving bank account. The Board will not accept telephone business before 9.30am. or after 4.15pm. Calls are recorded for training and monitoring purposes. The terms of the loan and the rate of interest on a fixed rate loan – or the formula for a variable rate loan – will be agreed at the time and the advance made within 48 hours (excluding weekends and bank holidays)

Advances are made in accordance with the following timetable:

| <u>Agreement of Terms</u> | <u>Day of Advance of Loan</u> |
|----------------------------------|--------------------------------------|
| | (where no bank holiday intervenes) |
| Monday | Wednesday |
| Tuesday | Thursday |
| Wednesday | Friday |
| Thursday | Monday |
| Friday | Tuesday |

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

- The borrowers number (the boards five-figure reference number)
- Then answer to the following questions –
 - i. Is this application within the relevant legislation and your council's borrowing powers?
 - ii. By when does the Director of Resources expect the loan to be entirely applied to expenditure? (The answer should be expressed in terms of the number of months from the point of application The response to this question should be agreed in advance with the responsible finance officer)
 - iii. Does the loan qualify for a concessionary rate?

The authorised dealer will then be asked to give the following details of the required loan:

- Applicable concessionary rate (as appropriate)
- Type of loan i.e. whether fixed or variable
- Repayment or amortisation method
- Sum required
- Date of final payment, which will coincide with a repayment date

- Where not apparent from the date of final payment: repayment dates, in the case of a fixed rate loan, or interest payment frequency, in the case of a variable rate loan
- Sort code and number of the receiving bank

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

Staff from the Board's offices will telephone the local authority as soon as practicable after a loan has been agreed, and in any event within 24 hours (excluding weekends and bank holidays), to verify the details. In addition, the Board will send the authority a letter confirming the terms of the agreement; this will not be received until after the loan has been advanced.

Type of loans by interest rate

Two types of loan according to interest rate are available from the board:

- Fixed rate loans, on which the rate of interest is fixed for the life of the loan and interest is payable at half-yearly intervals;
- Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals. The interval is at the choice of the borrower but once chosen remains the same for the life of the loan.

Type of loans by method of repayment or amortisation

Fixed rate loans are repayable by one of three methods:

- Annuity or Equal Repayments (ER): fixed half-yearly payment to include principal and interest; or
- Equal instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: half yearly payments of interest only with a single repayment of principal at the end of the term,

Repayments are at half-yearly intervals, with an initial broken period as necessary

Variable rate loans are repayable by one of two methods:

- EIP: equal monthly, quarterly or half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term

Repayments are at one, three or six monthly intervals from the date of advance at the borrower's choice

Interest rates

Interest rates are determined by the UK debt Management office (DMO) in accordance with methodologies agreed with HM Treasury under section 5 of the National Loans Act 1968. The rate of interest charged on the advance of a fixed rate loan, the discount rate applied to the repayment of such a loan, and the formula for a variable rate loan, is that agreed at the time of application. Variable rates are published at 9.30 a.m. each day. HM Treasury reserves the right to make further, unscheduled intra-daily rate changes, or alter the formula methodology or formula for variable rates, as necessary. The interest rate notice in force and past rates are displayed on the Board's website.

Loan periods and repayment dates

An authority may choose the final repayment date for any loan within the following limits:

| | | <u>Minimum period (years)</u> | <u>Maximum period (years)</u> |
|----------------------------|-----------------------|-----------------------------------|-----------------------------------|
| <u>Fixed rate loans</u> | <u>Maturity</u> | <u>1</u> | <u>50</u> |
| | <u>Annuity or EIP</u> | <u>2</u> | <u>50</u> |
| <u>Variable rate loans</u> | <u>Maturity</u> | <u>1</u> | <u>10</u> |
| | <u>EIP</u> | <u>2</u> | <u>10</u> |

Advance of loans

The amount of advance, after deduction of the Board's fee will be ~~credited~~ transmitted to the Council's designated bank account by automated credit transfer. 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).

Fees

The fees payable by the council in respect of advances from the board are:

- Fixed rate loans – 35p for every £1,000 or part of £1,000
- Variable rate loans – 45p for every £1,000 or part of £1,000
- Minimum fee - £25

Reconciliation

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