CABINET 6 February 2018

Treasury Management Policy 2018/19

1. PURPOSE AND RECOMMENDATIONS

Report Type:	Public Report for Recommendation
Purpose of Report:	To set out for the Cabinet's consideration and recommendation to Full Council, proposals for; i. The Treasury Management Strategy 2018/19 ii. The Treasury Management Practices iii. The Prudential Indicators 2018/19 onwards
Recommendations:	**It is RECOMMENDED that:** The Cabinet recommends to Full Council the following: (a) The approval of the Treasury Management Strategy 2018/19 (b) The approval of the Treasury Management Practices (c) The approval of the Prudential Indicators for 2018/19 and future years
Portfolio holder:	Councillor S Flower – Leader of the Council Councillor R Bryan - Portfolio Holder for Performance
Wards:	District-wide
Contact Officer:	Dan Povey – Partnership Financial Services Manager Liz Walker – Group Accountant

2. BACKGROUND

2.1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice. The Council adopted the CIPFA Treasury Management Code of Practice with effect from 1 April 2002 as amended by subsequent revisions of the Code. The Code sets out a framework of operating procedures for Members and Officers in order to reduce treasury risk and improve dialogue about the Council's treasury position.

2.2. Authorities are required to approve a Treasury Management Strategy before the start of each financial year. Treasury Management is defined as 'the management of the organisation's cash flows, its banking, money market and capital market transactions; the effect of the control of the risk associated with those activities; and the pursuit of optimum performance consistent with those risks'.

2.3. Local Authorities also need to comply with the requirements of The Local Government Act 2003, this states that the Annual Strategy Statement should provide details of non-specified investments (see paragraph 4.2 in appendix 1).

2.4. In accordance with the MHCLG (Ministry of Housing, Community & Local Government) Guidance, Members will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

3. TREASURY MANAGEMENT STRATEGY

3.1. The production of a Treasury Management Strategy details the expected activities of the Treasury function in the forthcoming 2018/19 financial year. The proposed strategy links with existing policies and approved strategies including the Council's Medium Term Financial Strategy (MTFS) as well as the Partnership Financial Services Manager's views on interest rates, supplemented with market forecasts from a variety of sources.

3.2. There are no changes proposed to the previously approved Strategy.

4. INVESTMENT PROJECTIONS 2018/19

4.1. The current forecast for average investment balances is £24m and the forecast annual return is £56,250.

5. BORROWING

5.1. Whilst the MTFS does not have any specific plans to borrow at this stage the strategy will be that should the need or opportunity arise where borrowing might be considered a business case will be presented to Full Council for approval.

5.2. Any borrowing will be in line with the prudential borrowing guidance and be with the Public Works Loans Board (PWLB) and any successor body, or with any of the bodies outlined in the Treasury Management Policy Statement (appendix 1).

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1. The revised CIPFA Treasury Management Code of Practice requires a number of treasury management prudential indicators to be compiled. These are included in appendix 3.

6.2. With regards to Treasury Management the following indicators must be considered and are based on the current premise that the Council does not have specific plans to borrow;

a) Authorised Limit – The authorised limit sets a parameter for the level of affordable debt. It should not be set so high that it would never in any possible circumstances be breached. It should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. In this way it may include provision for additional borrowing that may be required for a short period in order to deliver the agreed treasury management strategy. The authorised limit for 2018/19 will be set at £1m.

b) Operational Boundary – This indicator is the focus of day-to-day treasury management activity within the authority. It is a means by which the authority manages its debt to ensure that it remains within the self-imposed authorised limit. The appropriate limit for 2018/19 will be set at £0 for borrowing.

c) Interest Rate Exposure – This indicator sets out the maximum level of borrowing as a proportion of total borrowing that would be taken out at variable or fixed rates. If borrowing did take place the limit would be for a maximum of 100% to be taken out as Variable Rate Loans or 100% as Fixed Rate Loans.

d) Fixed Rate Debt Maturity – This indicator sets out the maximum levels of borrowing, as a proportion of total, borrowing that would be taken out over different maturity profiles.

7. IMPLICATIONS

Corporate Plan & Council Objectives

7.1. The matter under consideration impacts upon the Corporate Plan in the follows areas:-

- EC3 - Maintain strong and sustainable financial performance

Legal

7.2. Approving the Prudential Indicators is necessary to comply with the CIPFA Treasury management Code of Practice.

Environmental

7.3. There are no environmental implications arising directly from this report.

Financial and Risk

7.4. The primary risks to which the Council is exposed in respect of its Treasury Management activities are adverse movements in interest rates and the credit risk of its investment counterparties.

Equalities

7.5. There are no equalities implications arising directly from this report.

Consultation and Engagement

7.6. No consultation was required for this report.

8. CONCLUSION

8.1. That Members recommend the Treasury Management Strategy for 2018/19, the Treasury Management Practices and the Prudential Indicators for 2018/19 and future years, to Full Council for approval.

Appendices:
Appendix 1:- Treasury Management Strategy 2018/19
Appendix 2:- Treasury Management Practices
Appendix 3:- Prudential Indicators 2018/19 and future years

Background Papers:
None

Appendix 1

EAST DORSET DISTRICT COUNCIL
TREASURY MANAGEMENT STRATEGY

1. Objectives of the Strategy

1.1 The key objectives to be followed in 2018/19 are:

(a) *Borrowing (should borrowing be considered)*

i) To minimise the revenue costs of debt commensurate with exposure to future risk.

ii) To manage the Council's debt maturity profile i.e. to leave no one future year with a disproportionately high level of debt principal repayments that could lead to difficulties in terms of re-borrowing.

iii) To borrow in accordance with forecasted average future interest rates, (i.e. current best practice dictates that we borrow using short term and/or variable finance when rates are 'high', or use long term and fixed rate loans when rates are 'low'. Similarly, maturity loans can be taken when rates are relatively low, to lock in the principal for the maximum period, annuity loans and equal instalments of principal loans when rates are considered higher).

iv) To monitor and review the level of variable interest rate loans in order to take advantage of future forecasted interest rate movements.

(b) *Investment*

i) The Council's investment priority is to maintain the security of capital.

ii) To maintain policy flexibility through liquidity of its investments.

iii) The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

2. Prospects for Interest Rates 2018/19

2.1 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.5% over the medium term. Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. The risks to the forecast are broadly balanced on both sides.

3. The Strategy for 2018/19

Capital finance

3.1 To utilise all existing usable capital receipts and revenue funding and where possible to maximise the use of capital grants. The Council has no immediate plans to borrow. Should borrowing be required to progress the projects a full business case will be presented to Full Council.

Borrowing

3.2 At the start of the current financial year the Council has no external debt.

Temporary investments

3.3 The Council held £23.44m invested funds at 30 September 2017, which were yielding a rate of return of 0.23%.

3.4 The Council continues to invest its temporary surplus funds prudently in accordance with its Treasury Management Policy. Priority is given to security and liquidity rather than yield, although it is reasonable to seek the highest rate of interest consistent with the proper levels of security and liquidity.

3.5 The Council may place large amounts of money with the Debt Management Office at the Bank of England when overall market risks increase to unacceptable levels.

3.6 The Council banks with HSBC Bank which currently meets the minimum credit criteria of A- (or equivalent) long term rating. It should be noted that if the credit rating falls below the authority's minimum criteria, HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements for the respective councils. However, the situation will be kept under review by the Responsible Financial Officer.

3.7 The authority's investments are currently unsecured. The potential for future bail-in of banks increases the risk of any potential investments with those banks that might in the future be subject to a bail in. If this was to happen the authority could be at risk of losing a percentage of any investment with a bank subject to bail in.

3.8 In order to mitigate this risk, the Responsible Financial Officer may consider the future use of Secured Investments. At this time there are only a few other Local Authorities using these as they have only recently been introduced to the market. The Responsible Financial Officer may consider future use of such investments by other Local Authorities and advice by the Authority's treasury management advisor Arlingclose and any future change in the Strategy, to include secured investments, will come back to Full Council for approval.

3.9 Secured Investments include covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

4. Approved Organisations for Investment

4.1 In the main the Council intends to use Specified investments, these are short-term investments offering high security and high liquidity. To qualify automatically as Specified Investments the investment must be:

- in sterling and with a maturity of no more than 364 days

- such short-term investments made with the UK Government or a local authority or parish council will automatically count as specified investments
- not defined as capital expenditure by legislation
- in addition, short-term sterling investments with bodies or investment schemes with "high credit ratings" (i.e. with a Fitch Long, or equivalent rating of A- or better)

4.2 The Council does have plans to use non specified investments but limited to:

- unrated Building Societies as advised by the Council's Treasury Management Advisors, Arlingclose
- Banks with a rating of long term rating of Fitch BBB+, Moody's BAA1 or S&P BBB+ only as advised by the Council's Treasury Management Advisors, Arlingclose

5. Annual Minimum Revenue Provision Statement 2018/19

5.1 Due to the Council not having any debt a Minimum Revenue Provision is not required. Where a Council does not finance capital expenditure from grants, capital receipts, third party contributions or direct revenue contributions, it will finance it by making revenue provision from future years' revenue accounts. Regulation requires that the Council shall determine an amount of minimum revenue provision that it considers to be prudent.

6. Treasury Management Policy, Practices and Schedules

6.1 A copy of the Policy, Practices and Schedules is attached.

7. External Fund Managers and Treasury Advisers

7.1 The Council uses Arlingclose as its treasury management advisers from. The company provides advice and support to the Council in the following ways:

- Economic and interest rate analysis
- Debt Management Advice including advice on Debt Rescheduling and the timing of new borrowing
- Credit Rating information from the three main credit rating agencies
- Technical support on treasury matters

7.2 Whilst the advisers provide support to the Council's treasury function, under current market rules and the CIPFA Treasury Management Code of Practice the final decision on treasury matters remains with the Council.

Treasury Management Policy Statement

Definition

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

Objectives

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation. Priority for investment decisions will be based on security and liquidity.

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

Management and Decision Making

The Strategic Director (Finance), being the officer appointed to have responsibility for the Council's financial affairs for the purpose of Section 151 of the Local Government Act 1972, shall be responsible for the management of the Council's funds and for reporting to the Council and Committees on these affairs.

All executive decisions on borrowing, investment or financing shall be delegated to the Strategic Director (Finance) and through that post to staff, who shall be required to act in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice (Revised 2011).

Methods of Raising Finance

The following methods of raising finance may be adopted:

- Revenue Receipts
- Capital Receipts
- Internal Funds
- Borrowing from the Public Works Loans Board and any successor body
- Borrowing from institutions included on the Bank of England's approved list
- Borrowing from other Local Authorities
- Leasing

No other methods of raising funds may be adopted without the approval of the Council. Limits on borrowing shall be as determined annually by the Council under the requirements of the Local Government Act 2003.

Approved Organisations for Investment

Surplus funds may be invested in the following institutions:

a) The Council's account holding bank for deposits requiring less than 24 hours notice of withdrawal irrespective of its credit rating up to a maximum of £4m.

b) Any bank or building society with a UK branch, with at least the following ratings:

    i) long term Fitch A- , Moody's A3, S & P A- and
    ii) Sovereign Fitch AA, Moody's Aa2, S & P AA

c) An unrated Building Society with society assets in excess of £250m, only as advised by the Council's Treasury Management Advisors, Arlingclose, up to a maximum investment per institution of £1m for a maximum time period of 100 days. The maximum overall limit for unrated Building Society investments will be £3m.

d) A bank with a long term rating of Fitch BBB+, Moody's BAA1 or S&P BBB+ only as advised by the Council's Treasury Management Advisors, Arlingclose, up to a maximum investment per institution of £1m for a maximum time period of 100 days. The maximum overall limit for Banks in this criterion will be £3m.

e) Any British Local Authority, whether rated or not, up to a maximum of £2m. The maximum time limit for a Local Authority investment is 364 days.

f) AAA rated Money Market Funds, up to a maximum of £2m for Funds with assets up to £1bn, and up to a maximum of £2m for Funds with assets of £1bn or more. The maximum amount that can be placed with a single Money Market Fund provider is £2m. The maximum amount of the Council's total portfolio that can be held with MMFs is £4m. The maximum notice period for a MMF investment is 364 days.

g) UK Government

The time limit and investment limit for banks and building societies is linked to the credit rating of the counterparty as follows.

Credit Rating (lowest)	Time limit	Counterparty Limit
AAA, Aaa, AAA	364 days	£3 million
AA+, Aa1, AA+	364 days	£3 million
AA, Aa2, AA	364 days	£2 million
AA-, Aa3, AA-	364 days	£2 million
A+, A1, A+	364 days	£2 million
A, A2, A	100 days	£2 million
A-, A3, A-	100 days	£2 million

The rating of each institution by Fitch, Moody's and Standard and Poor will be confirmed before each transaction is entered into. If there is a negative watch/review against any credit rating of the institution which, if applied, will take it below the minimum rating defined in this policy, then no further investments may be made with that institution until such time as the rating meets the minimum. Any existing funds will be withdrawn as they mature or at any earlier time provided that no penalty is incurred.

For a counterparty to be eligible for investment they must have a minimum of two ratings from the three rating agencies.

The maximum amount that may be invested with any one non UK country, UK bank, institution, or group of institutions with the same parent, is shown in the table according to the credit rating of the counterparty. There will be no limit for money deposited with the UK Government.

The Section 151 Officer and Deputy Section 151 Officer can authorise a transaction which exceeds the maximum investment limit with any one institution and must record the reason for any departure from the policy and report this to Members. In such cases the appropriate authorising signature should be recorded in the central register.

Risk Assessment and Credit Rating

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Interest Rate Exposure

The maximum and minimum proportion of interest on outstanding debt which may be subject to fixed or variable rates of interest shall be as determined annually by the Council under the requirements of the Local Government Act 2003.

Appendix 2

EAST DORSET DISTRICT COUNCIL
TREASURY MANAGEMENT PRACTICES

Introduction

This document forms part of the Treasury Policy Statement as approved by the Council and sets out in detail the arrangements for the management of the Council's funds.

1. Risk Management

General **:** The Strategic Director (Finance) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy and suitability of these arrangements 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 Treasury Management Practice 6 *Reporting Requirements and Management Information Arrangements.*

Liquidity Risk: The Strategic Director (Finance) will ensure that cash resources are adequate, though not excessive, and that borrowing arrangements and overdraft or standby facilities are available at all times to enable the Council to achieve its business objectives.

The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. No borrowing in advance of need will be undertaken unless approved by the Strategic Director (Finance) and the reasons for this borrowing recorded.

Interest Rate Risk: The maximum and minimum proportion of interest on outstanding debt which may be subject to fixed or variable rates of interest shall be as determined annually by the Council under the requirements of the Local Government Act 2003.

Interest rates will be reviewed by the Senior Accountant with responsibility for Treasury Management as part of the on-going monitoring arrangements to ensure that as far as is possible investments are made so as to maximise the return to the Council having regard to the objectives and limits imposed by the Treasury Policy Statement and the requirements as set out below in relation to Credit and Counterparty Risk.

Borrowings, particularly the spread of loan maturity dates, will be kept under active review by the Senior Accountant to ensure that the Council's exposure to interest rate variations is minimised.

Inflation Risk: Fluctuations in interest rates will be managed with a view to containing interest costs, or securing interest revenues, in accordance with the amounts provided in the budgetary arrangements as amended in accordance with Treasury Management Practice 6 *Reporting Requirements and Management Information Arrangements.*

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on treasury management activities, will be controlled as part of the Council's overall strategy for managing its exposure to inflation. This will be achieved by the prudent use of 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 and structure of interest rates or inflation. The above is subject at all times to the consideration and approval, if required, of any policy or budgetary implications.

Credit and Counterparty Risk: The prime objective of treasury management activities is to be the security of the principal sums invested. Accordingly, counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and investment activities will be limited to the instruments, methods and techniques referred to in Treasury Management Practice 4 *Approved Instruments Methods and Techniques*.

The counterparty policy, with respect to those institutions from whom the Council may borrow or with whom funds may be invested is set out in the Treasury Management Policy Statement.

Credit ratings will be used as a starting point when considering credit risk. Employees engaged in treasury management activity should have regard to other sources of market information when considering the suitability of counterparties.

Refinancing Risk: The Council's borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of the monies so raised will be 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.

Legal and Regulatory Risk: The Monitoring Officer will ensure that all of the Council's treasury management activities comply with its statutory powers and regulatory requirements. The Council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. The Strategic Director (Finance) will ensure that Counterparties possess the necessary powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and any fees charged.

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

Fraud, Error, Corruption and Contingency Arrangements: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error corruption or other eventualities in its treasury management dealings. The Strategic Director (Finance) will maintain suitable systems, procedures and contingency arrangements to this end.

Market Risk: The Strategic Director (Finance) will monitor the Council's treasury management policies and objectives to ensure that it is not compromised by adverse market fluctuations in the value of the principal sums invested, and will seek to protect the Council from the effects of such fluctuations.

2. Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim.

Accordingly the treasury management function will be appraised for the value it adds in support of the Council's business objectives and will be the subject of examination through the Council's scrutiny process regarding alternative methods of service delivery, the availability of fiscal or other grant or subsidy incentives and of the scope for potential improvements.

The performance of the treasury management activity will be measured by reference to the parameters set out in the Treasury Management Policy Statement, the base rate for the relevant period and reference to other local authority performance.

3. Decision Making and Analysis

Full records will be maintained of treasury management decisions, and the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Documentation: The following documents are to be used when making loans:

(a) Money Market rates form

(b) Loan record sheet

(c) Confirmation of Loan letter

Where an investment decision is made which does not reflect the prevailing market rates as recorded by the Senior Accountant then the reason for that decision shall be recorded (e.g. no bids, late notification of loan on call being repaid etc.).

A register of all loans shall be kept. Once a loan has been agreed the details should be recorded in the register and on a loan record sheet.

Confirmation of the loan should be sent to the borrower the same day using a "Confirmation of Loan" letter.

Transmission Procedures: Once a loan has been agreed details of the loan are put onto a loan sheet record by the officer arranging the loan. Each loan is given a unique reference which is quoted on all dealings regarding the loan. The details must be checked with the broker / Counterparty by a second authorised officer and the form signed as verified.

The payment is then entered into the on-line system of each Council's bank, usually by the initiator of the loan. The details are checked by a second authorised officer and a screen print made recording the details, which is signed by both officers.

Notification in the form of a letter must be sent to the recipient of the loan. A copy of the letter is retained and filed. The recording of the transaction in the Financial Information System and the processing of the relevant documentation in the Creditors System shall not be undertaken by the officer initiating the deal.

4. Approved Instruments Methods and Techniques

Only those instruments, methods and techniques as set out in the Treasury Management Policy Statement will be employed, including compliance with any parameters set out in that policy.

5. Organisation Clarity and Segregation of Responsibilities and Dealing Arrangements

Organisation**:** It is essential, for the purposes of the effective control and monitoring of 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 clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those 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, as a result of lack of resources or other circumstances, it is necessary to depart from these principles, the Strategic Director (Finance) will ensure that the reasons are properly reported in accordance with Treasury Management Practice 6 *Reporting Requirements and Management Information Arrangements.*

The Strategic Director (Finance) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and that there are arrangements to cover for absence. All employees engaged in treasury management must follow the procedures set out in the Treasury Management Policy Statement and the Treasury Management Practices. The Strategic Director (Finance) will ensure that at all times those engaged in treasury management activity follow these procedures.

The Strategic Director (Finance) will ensure that there is proper documentation for all deals and transactions and those procedures exist for the effective transmission of funds.

The delegation of responsibilities is set out in Schedule 1.

Dealing Procedures: Where practicable rates should be obtained from at least two sources before a deal is made. Dealing will normally be undertaken by either the Senior Accountant or the Accountants. The Senior Accountant and Accountants may authorise deals up to the limits specified in the Treasury Policy Statement. These limits may be varied by the Strategic Director (Finance) and any variation reported to the Joint Audit Committee.

Treasury management operations will be organised in such a way as to ensure adequate division of duties between policy formulation, dealing and treasury administration.

In the absence of the Strategic Director (Finance) the Partnership Financial Services Manager shall assume responsibility for all aspects of the treasury management function as delegated to them as set out in Schedule 1.

In the absence of the Senior Accountant with responsibility for Treasury Management, the Group Accountant shall assume responsibility for all aspects of the treasury management function delegated to them as set out in Schedule 1.

The Group Accountant will be responsible for supporting the Senior Accountant with Responsibility for Treasury Management, and reviewing the operation of the Treasury Management Policy as set out in Schedule 1.

6. Reporting Requirements and Management Information Arrangements

Regular reports will be prepared and considered on the implementation of the Council's treasury management policies; on the effect of decisions taken and transactions executed in the pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting treasury management activities; and on the performance of the treasury management function.

The Senior Accountant with responsibility for Treasury Management shall report to the Joint Audit Committee and the Strategic Director (Finance) on a quarterly basis on the placement, amount and terms of all investments, including interest earned.

The Strategic Director (Finance) shall report to the Joint Audit Committee on the exercise of Treasury Management powers delegated to him. These reports shall include the Annual Report on Treasury Management for presentation by 30 September of the succeeding financial year and a mid- year review.

The Strategic Director (Finance) shall report on the investment strategy to be pursued in the forthcoming financial year, which shall be approved by the Cabinet before the start of the financial year.

7. Budgeting Accounting and Audit Arrangements

The Strategic Director (Finance) is responsible for preparing an annual budget for the treasury management function which will include any matters required by statute or regulation, together with information in support of compliance with Treasury Management Practices 1 (Risk Management), 2 (Performance Measurement) and 4 (Approved Instruments Methods and Techniques).

The Strategic Director (Finance) will exercise effective controls over this budget and will report upon and recommend any changes required, in accordance with Treasury Management Practice 6 *Reporting Requirements and Management Information Arrangements.*

Treasury management activities, decisions made and transactions executed will be accounted for in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements in force at the time.

Auditors and other persons charged with regulatory review will have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8. Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Strategic Director (Finance) and will be aggregated for cash flow and investment management purposes.

A model of the Council's cash position on a month to month basis shall be maintained by the Senior Accountant. A model of the quarterly cash flows shall also be maintained. The Senior Accountant will monitor actual cash flows against those predicted by the model and make adjustments as necessary.

9. Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Procedures will therefore be maintained for verifying the identity of Counterparties and reporting suspicions and ensuring that staff are properly trained.

Any employee who considers that a transaction may be suspicious must report this to the Strategic Director (Finance), who will consider what action, if any, should be taken.

10. Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. Individuals will be appointed who are both capable and experienced and training will be provided for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Members tasked with treasury management responsibilities, including those responsible for scrutiny, should have training relevant to their needs and those responsibilities.

The Accountants and Senior Accountants shall receive training in the general aspects of treasury management at an approved training course and shall receive training on the internal aspects of the Council's debt management operations from the Partnership Financial Services Manager and the Group Accountant.

11. External Providers

The Council recognises the potential value of employing external providers of treasury management services in order to acquire access to specialist skills and resources. External managers of the Council's funds shall not be appointed without the approval of the Council, following a full evaluation of the costs and benefits of doing so.

Where external managers are appointed their appointment and methods by which their value will be assessed will be properly agreed and documented and subject to regular review. Where feasible and necessary, a spread of service providers will be used to avoid over reliance on one, or a small number of companies. Where services are subject to formal tender legislative requirements will always be observed. The monitoring of any such arrangements will be the responsibility of the Strategic Director (Finance).

External providers of treasury management information shall be used to provide information required in making treasury management decisions that is not freely available. The use of such providers should be approved by the Council and the arrangements kept under review.

12. Corporate Governance

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

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

Schedule 1

Division of Responsibilities

The Council

1. Under the Local Government Act 2003 determining the prudential indicators for the year.

The Cabinet

1. Agreeing the Treasury Policy Statement.
2. Agreeing the division of responsibilities.
3. Approving the investment strategy for the financial year.

The Joint Audit Committee

1. Receiving an annual report on the treasury management function and commenting thereon.
2. Receiving quarterly reports on the treasury management function, including a mid-year review and commenting thereon.
3. Receiving the investment strategy for the financial year and commenting thereon.
4. Review the Treasury Management Policy mid-year and comment there-on.

The Strategic Director (Finance)

1. Preparing the Treasury Policy Statement.
2. Deciding on funding and short term policies for the ensuing period, including variations to investment limits.
3. Advising on the acceptability and characteristics of treasury instruments.
4. Establishing the vires of the proposed action and the instruments to be used.
5. Reviewing the performance of the treasury management function.
6. Ensuring that the Treasury Management Practices are regularly reviewed.
7. Ensuring that the organisation of the treasury management function is adequate to meet current requirements.
8. Monitoring adherence to the approved policy by the treasury management team.
9. Assessing and appointing brokers if approved by the Council.
10. Reporting to elected members and advising the Monitoring Officer where appropriate.

Partnership Financial Services Manager

1. Ensuring an appropriate division of duties.
2. In the absence of the Strategic Director (Finance), to carry out those duties.

Group Accountant

1. Review the operation of the Treasury Management Policy.

2. Support the Senior Accountant (TM) as required.
3. In the absence of the Senior Accountant (TM), to carry out those duties.

Senior Accountant (with responsibility for Treasury Management)

1 Producing regular performance reports.
2 Monitoring performance of brokers, if appointed.
3 Manage the treasury function having regard to the requirements of the Treasury Policy Statement and Treasury Management Practices.

Accountants

1. Arrange investments as specified by the Treasury Policy Statement and Treasury Management Practices.
2. Produce monthly statements of investments outstanding.
3. Ensure that interest due is received and recorded correctly.

Monitoring Officer

1. Ensuring that the Strategic Director (Finance) reports regularly to elected members on treasury policy, activity and performance.
2. Ensuring compliance by the Strategic Director (Finance) with the Treasury Policy Statement and that the Statement complies with the law.
3. Satisfying himself that any proposal to vary treasury policy or practice complies with the law or any code of practice.
4. Advising the Strategic Director (Finance) where the advice of the Monitoring Officer is sought.

Internal Audit

1. Reviewing compliance with the approved policy and procedures.
2. Reviewing the division of duties and operational practice.
3. Assessing value for money from treasury activities.
4. Undertaking probity audit for the treasury function.

Appendix 3

EAST DORSET DISTRICT COUNCIL
PRUDENTIAL INDICATORS

Prudential Indicator 1: Ratio of Financing Costs to Net Revenue Stream

2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
-0.88	-0.48	-0.47	-0.51	-0.52

Prudential Indicator 2: Incremental Impact of Capital Expenditure

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Council Tax at Band D	£0.01	£0.00	£0.00

Prudential Indicator 3: Treasury Management

The *Code of Treasury Management in the Public Sector* issued by CIPFA was adopted on 19th February 2003 and has been incorporated into the Council's Constitution.

Prudential Indicator 4: Estimates of Capital Expenditure

2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
£1,541k	£1,519k	£3,457k	£156k	£32k

Prudential Indicator 5: Capital Financing Requirement

2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
£52k	£50k	£48k	£46k	£44k

Prudential Indicator 6: Authorised Limit for External Debt

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£1,000k	£1,000k	£1,000k	£1,000k	£1,000k
LT Liabilities	£52k	£50k	£48k	£46k	£44k
Total	£1,052k	£1,050k	£1,048k	£1,046k	£1,044k

Prudential Indicator 7: Operational Boundary

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£0k	£0k	£0k	£0k	£0k
LT Liabilities	£52k	£50k	£48k	£46k	£44k
Total	£52k	£50k	£48k	£46k	£44k

Prudential Indicator 8: Interest Rate Exposure

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fixed Interest Exposure -	100%	100%	100%
Variable Interest Exposure –	100%	100%	100%

Prudential Indicator 9: Sums Invested for more than 364 Days

It is not expected that any sums will be invested for more than 364 days.

Prudential Indicator 10: Maturity Structure of Borrowing

Debt Maturing Within	%age of total borrowing
Less than 12 months	0 – 100%
12-24 Months	0 – 100%
24 months – 5 years	0 – 100%
5 years – 10 years	0 – 100%
Over 10 years	0 – 100%