APPENDIX 3

TREASURY MANAGEMENT STRATEGY 2019/20

BACKGROUND

For each financial year the City Council sets a balanced budget so that revenue income raised during the year is sufficient to meet all of its revenue expenditure commitments. One of the key functions of the City Council's treasury management team is to ensure that these cash flows are adequately managed, so that cash is available when it is needed. Surplus cash is invested having regard to risk, liquidity and yield.

A further key function of treasury management is to ensure that the City Council has sufficient funds to pay for its capital and other investment plans. These capital plans which are set out in the Capital Programme identify the borrowing needs of the City Council over a longer time horizon than the current year. In managing its longer term cash flow requirements for capital expenditure the City Council will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans it may at times be advantageous for the City Council to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.

Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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."*

As treasury management decisions involve borrowing and investing substantial sums of money, the City Council is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.

The Treasury Management Strategy for 2019/20 is based upon the Chief Finance Officer and treasury officers' views on interest rates supplemented by treasury advisors. The strategy covers:

a) The policy for managing capital borrowing and debt rescheduling
b) The annual investment strategy for treasury management investments
c) Reporting arrangements
d) Training arrangements
e) Performance indicators
f) Minimum Revenue Provision (MRP) Policy

g) Use of treasury management advisors
h) Treasury Management Practice Statements (Schedule3)

BORROWING STRATEGY

The main objective for the City Council when undertaking borrowing is to achieve an appropriate risk balance between securing low interest costs and certainty of those costs over the loan period. In practice this risk balance is informed by the following:

- How much the City Council needs to borrow to fund its capital expenditure plans.
- How long to borrow for, i.e. whether to borrow short term or long-term.
- When to borrow.
- The level of available cash balances held on the balance sheet and which may be used to defer the point of actual borrowing.
- The current and forecast interest rate environment, i.e. whether rates are forecast to rise or fall.
- Investment returns. i.e. how much can be earned from surplus cash balances.
- The amount of borrowing that needs to be re-financed.
- The need to achieve a balanced loan portfolio so that not all debts are due to be repaid at the same time.

Capital Borrowing Requirement

The City Council's underlying borrowing need is represented by its Capital Financing Requirement (CFR). The CFR sets out the total amount of the City Council's cumulative capital expenditure that is to be financed by borrowing. The CFR is based on the expenditure plans contained in the Capital Programme. The table below summarises the City Council's Capital Programme up to 2021/22 and the borrowing requirement for each year.

Table 1: Capital Programme 2018/19 to 2021/22

	2019/20 £M	2020/21 £M	2021/22 £M
Capital Expenditure	**353.863**	**227.778**	**120.808**
Financed by:			
Capital Receipts	16.725	11.309	0.137
Revenue Supported	3.143	0	0
Grant Contributions	71.675	44.920	23.671
Developer contributions	2.133	0	0
Borrowing	260.186	171.549	97.000
Total Financing	**353.863**	**227.778**	**120.808**

Further details of the City Council's proposed capital expenditure plans can be found in the Capital Strategy and Capital Programme. The capital borrowing requirement shown above is a projection based on the proposed capital programme to be approved on 6 March 2019. The borrowing requirement may subsequently change during the course of the year as new capital and investment opportunities are identified, schemes are re-phased, additional grant contributions are received or capital receipts targets are revised.

The CFR measures the authority's underlying need to borrow for capital purposes. Based on the capital expenditure and financing forecast above, the CFR is projected to be as follows:

Table 2: Capital Financing Requirement

	2019/20 Estimate £M	**2020/21 Estimate £M**	**2021/22 Estimate £M**
Opening CFR	909.673	1,158.648	1,308.207
Capital Expenditure to be financed by borrowing in year	260.186	171.549	97.000
Less MRP and capital receipts set aside for debt repayment	(11.212)	(21.990)	(25.503)
Closing CFR	**1,158.648**	**1,308.207**	**1,379.704**

The Closing CFR is forecast to be £1,379.704M in 2021/22 based on the current capital programme. The CFR is a notional debt figure and actual external borrowing undertaken may be different based on the City Council's cash flow forecasts which take into account all the projected inflows and outflows of cash for the year.

Actual Borrowing

At 31 March 2019 the City Council is forecast to hold £742M of actual external debt, comprising £665M external borrowing and £77M other long term liabilities including PFI. If the City Council borrows in accordance with the requirements of the Capital Programme then external debt will be £1,257M at 31 March 2022 (£1,194M borrowing and £63M other long term liabilities).

Borrowing Strategy to be adopted

The figure for actual borrowing in recent years has been below the CFR. In an environment of extremely low investment returns, a strategy has been adopted whereby capital borrowing need has not been fully funded by taking on new external debt, but rather from cash supporting the City Council's usable reserves and working capital. This practice is referred to as internal borrowing. Having regard to the CFR and long-term cash projections, Table 3 illustrates the extent of planned internal borrowing over the budget period.

Table 3: Forecast Internal Borrowing

Balance Sheet Projections	**2019/20**	**2020/21**	**2021/22**
	£M	**£M**	**£M**
Capital Financing Requirement	1,158.649	1,308.208	1,379.704
Less: CFR for PFI / Finance leases	(88.547)	(87.173)	(85.749)
Borrowing CFR	**1,070.102**	**1,221.035**	**1,293.955**
Anticipated Debt portfolio	925.186	1,096.735	1,193.735
Internal borrowing	**144.916**	**124.300**	**100.220**
Internal Borrowing as a % of CFR	**13.5%**	**10.2%**	**7.7%**

It is recognised that using internal borrowing may carry an element of interest rate risk in that the City Council may have to pay more in future years to borrow if interest rates increase, but this risk is currently being off-set by cheaper debt costs in the revenue account.

With regard to interest rates the economic outlook is currently uncertain and likely to be heavily influenced by a range of Brexit scenarios in which interest rates may fall further or they may increase at some point (see Schedule 2 for further consideration). It is anticipated that if interest rates do increase then any rise is likely to be moderate. Whilst short-term interest rates are currently lower than longer-term rates longer term debt may be taken when interest rates are anticipated to rise and to maintain a balanced debt portfolio.

One option available when it is envisaged that interest rates are likely to increase is to borrow in advance of need. This will only be done if the revenue savings in the longer term are more than the short term additional cost to the City Council. This is referred to as the “cost of carry” as the excess cash is unlikely to be invested so as to recover the cost of borrowing.

Limits to Borrowing Activity

To manage overall debt levels CIPFA’s Prudential Code establishes two key indicators of prudence: these limits to borrowing activity are the Operational Boundary and the Authorised Borrowing Limit.

a) Operational Boundary

The Operational Boundary is a key prudential indicator which ensures that, except for the short-term, the total gross amount of external debt does not exceed the total of the CFR. It takes into account projections of borrowing requirements per the CFR and repayments in future years. Having regard to the projected levels of external debt, the Chief Finance Officer is of the opinion that the operational boundary for 2019/20 and the following two financial years (see table below) will prove adequate for the City Council's borrowing needs. It has been set at a level equal to the CFR.

Table 4: Operational Boundary for External Debt

Operational Boundary for External Debt	2019/20	2020/21	2021/22
	£M	£M	£M
Operational Boundary for Borrowing	1,070.000	1,221.000	1,294.000
Operational Boundary for Other Long Term Liabilities (PFI & Finance leases)	89.000	87.000	86.000
Operational Boundary for External Debt	**1,159.000**	**1,308.000**	**1,380.000**

b) Authorised Borrowing Limit

The Authorised Borrowing Limit is a further key indicator required by the Prudential Code. It is a statutory limit determined in accordance with section 3(1) of the Local Government Act 2003. It represents the limit approved by the City Council and beyond which external debt, including overdrawn bank balances and short-term borrowing taken out for unexpected cash flow movements is prohibited. The City Council has no powers to exceed this limit unless a further report with revised prudential indicators is approved by the full City Council. The limit therefore has regard to the City Council's CFR plus an allowance for the risks and uncertainties which affect day-to-day debt levels, and the movements in short term cash flow. In addition, the Authorised Limit reflects the overall level of external debt which is affordable in the short-term (for example when borrowing in advance of need) but is not desirable in the long-term.

Having regard to the operational boundary and incorporating sufficient headroom to manage unexpected borrowing needs, the Chief Financial Officer is of the opinion that the Authorised Limit for 2019/20 and the following two financial years (see table below) will prove adequate for the City Council's borrowing needs. The authorised limit allows for additional borrowing of £60m per year over the three year period.

Table 5: Authorised Limit for external debt

Authorised Limit for External Debt	2019/20	2020/21	2021/22
	£M	£M	£M
Authorised limit for Borrowing	1,130.000	1,281.000	1,354.000
Authorised limit for Other Long Term Liabilities (PFI & Finance Leases)	89.000	87.000	86.000
Authorised Limit for External Debt	**1,219.000**	**1,368.000**	**1,440.000**

In addition to external debt indicators The Treasury Management Code requires the following Treasury Management indicators relating to the prudence of the debt portfolio:

- Upper limit on fixed interest rate exposures;
- Upper limit on variable interest rate exposures;
- Upper and lower limits for the maturity structure of borrowing;

Interest Rate Exposures

To mitigate exposure to interest rate risk it is recommended that the City Council sets upper limits on its fixed and variable interest rate exposures as follows:

Table 6: Interest rate exposure limits

Upper Limits on Interest Rate Exposures	2019/20	2020/21	2021/22
	%	%	%
Fixed	100	100	100
Variable	50	50	50

This means that the Chief Finance Officer will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2019/20 and .

Maturity Structure of Borrowing

To mitigate exposure to refinancing risk it is recommended that the City Council sets upper and lower percentage limits for the maturity structure of its borrowings as follows:

Table 7: Maturity Structure Limits

	Upper Limit	Lower Limit
Under 12 months	70%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	50%	0%

Time periods commence on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can request repayment.

The actual maturity profile of the external debt portfolio is as follows:

Table 8: Current maturity profile of existing debt portfolio

	Upper Limit	Current Profile
Under 12 months	70%	26%
12 months and within 24 months	50%	2%
24 months and within 5 years	50%	16%
5 years and within 10 years	50%	24%
10 years and above	50%	32%

Forward Rates

To manage interest rate risk the City Council may consider arranging forward loans in 2019/20. Under these loan agreements the interest rate is agreed in advance (fixed in context with current rates) but the cash is received in later years. The arrangement of such debt would enable certainty of cost to be achieved without suffering an investment 'cost of carry' in the intervening period.

Central Government has recently announced the introduction of a project rate whereby local authorities can bid for funding at a discounted rate of 0.40% below standard PWLB rates. Alternatively, some private sector funding can occasionally be sourced on a forward start basis at sub PWLB Certainty Rates. In the event of such funds being available to the City Council we will consider borrowing for longer periods where the project and available rates make such an option attractive.

Debt Rescheduling

Rescheduling of debt is the early repayment of loans and replacement by loans for different periods and at different interest rates. It can be used to enhance the balance of the long term portfolio, for example, by amending the maturity profile or changing volatility levels and may on occasion generate cash savings. Debt rescheduling becomes more beneficial when the relationship between short and long term rates moves appreciably.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures will be continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

Minimum Revenue Provision Policy

The Council has a statutory requirement to set aside a prudent amount each year as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The amount to be set aside as MRP is governed by statutory guidance, however, in practice it is left for each authority to determine what a prudent amount should be having regard to the sustainability and affordability of both past and future borrowing commitments. The recommended MRP policy to be adopted for 2019/20 is shown at Schedule1.

The recommended policy for 2019/20 continues to operate a re-phasing of MRP relating to supported borrowing (capital expenditure undertaken prior to 1 April 2008 for which formula grant incorporated an element to fund the related MRP). This element of the MRP charge will remain at £0.5m for 2019/20 (as for 2018/19) with a return to the previous methodology in 2020/21. This re-phasing is intended to give flexibility for the City Council to temporarily redirect resources towards transforming service provision and to achieve significant budget savings as a result of this transformation.

Ratio of Financing Costs to Net Revenue Stream - Revenue Impact of capital expenditure

This ratio measures the proportion of the Council's net revenue budget that is used to meet the cost of financing past and proposed capital expenditure. Financing costs include interest payable on borrowing and PFI / finance lease schemes, interest income on treasury investments, and MRP charges.

Table 9: Financing Costs Ratio

Ratio of Financing Costs to Net Revenue Stream	2019/20	2020/21	2021/22
	Forecast	Forecast	Forecast
	%	%	%
Invest to Earn / Save Capital Schemes	0.5	0.8	1.1
General Capital Schemes	6.7	8.6	9.2
Total	**7.0**	**9.2**	**10.3**

The increase in this ratio reflects the additional level of borrowing required to finance the City Council's capital programme. However, the intention is that schemes identified as Invest to Earn / Save will deliver a financial return at least sufficient to offset the additional capital financing costs they generate. In addition, the capital financing costs relating to the Highways Transformation programme are being offset by savings from the transformation Programme identified in service areas.

INVESTMENT STRATEGY

The primary purpose of the Annual Investment Strategy is to set out the policies for managing investments giving priority to the security and liquidity of the Council's investments. It also contains the policy on the use of credit ratings and credit ratings agencies, procedures for determining and limiting the use of higher risk investments and the use of external advisors.

The City Council's investment priorities are

a) the security of capital; and the

b) liquidity of its investments.

The City Council will aim to achieve the optimum return or yield on its investments commensurate with the proper levels of security and liquidity. All investments will be in sterling. All cash balances will be invested in accordance with the Treasury Management Code of Practice and with regard to the statutory guidance on investments.

A counterparty list of institutions with which the City Council will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating. Regardless of these criteria, the money market will be closely monitored and any institution will be suspended from the counterparty lending list should any doubts arise concerning its financial standing. Under the guidance, investments fall into two separate categories, either specified or non-specified investments.

Specified Investments

Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of less than one year).
- The investment does not involve the acquisition of share capital in any corporate body.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency, or with the UK Government or a local Council.

Specified investments will comprise the following institutions: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational bonds of less than one year’s duration.
- UK Local Authorities.
- Money Market Funds.
- Ultra-Short dated Bond Fund
- Corporate Bond Funds
- UK Banks.
- Foreign banks registered in the UK.
- Building Societies.

Credit Rating Criteria

The City Council will invest with UK institutions or non-UK institutions that are domiciled in a country which has a minimum Sovereign long term rating of “AA”.

The institution must have a high credit rating assigned by any of the three credit ratings agencies (Fitch, Moody's and Standard & Poor's). To be deemed highly rated the institution must have a long term credit rating of at least BBB as defined by Fitch (or equivalent).

If any of the agencies assigns a rating lower than the Fitch minimum (or equivalent) to an institution then the Council will not invest with that institution.

In addition, the Council will use institutions that are part nationalised UK banks.

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

Investment Limits

The credit ratings and individual limits for each institution within the categories of investments to be used by the Council in 2019/20 are as follows:

• UK Government (including gilts and the DMADF)	Unlimited
• UK Local Authorities (each)	Unlimited
• Part Nationalised UK banks	£50M
• Money Market Funds (AAA rated)	£30M
• Ultra-Short dated Bond Fund (AAA rated)	£10M
• Corporate Bond Funds (AAA rated)	£10M
• UK Banks and Building Societies (BBB or higher rated)	£20M
• Foreign banks registered in the UK (A or higher rated)	£20M

The maximum that may be invested with different banks that are part of the same conglomerate shall not exceed the maximum of the highest rated bank within the group. The limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Head of Corporate Finance or Treasury Manager.

Non-Specified Investments

Non-specified investments do not, by definition, meet the requirements of a specified investment. The Ministry of Housing. Communities & Local Government (MHCLG) guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. The following types of non-specified investments may be used.

- Deposits with the Council's own banker shall be unlimited for transactional purposes and to allow for unusual cash flow circumstances.

- Deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment) with any bank or building society that meets the credit rating criteria above.

- Building societies which do not meet the normal credit criteria but are one of the top ten building societies, determined by asset size. Those societies that are within the top ten but do not have an agency determined credit rating shall have an individual limit of £10M. Building Society rankings are checked regularly with the Building Societies Association.

- Corporate bonds are no longer classified as capital expenditure following DCLG Changes to the Capital Finance System (SI 2012/265). Investment in these instruments will be limited to £10M per institution that meets a minimum credit rating criteria of Fitch Long Term A- or equivalent.

- Investments in unrated Bonds including Energy Bonds, or Community Energy Schemes, will be considered where commercially attractive; subject to internal due diligence.

- Pooled property funds – the use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the Charities, Churches and Local Authorities (CCLA) Property Fund. Investments in the fund will be limited to a maximum of £20M.

Total Principal Sums Invested For Periods Longer Than 364 Days

It is recommended that the limit for investments of longer than 364 days be set at £50M for each of the years 2019/20, 2020/21 and 2021/22.

Should the Council agree to subscribe further to the Local Authority Mortgage Scheme developed by Link Asset Services, it may be required to place funds with lending institutions for periods of up to 5 years. This could be classified as being a service investment, rather than a treasury management investment, and therefore outside of the Specified / Non-Specified categories. The terms and conditions surrounding the placing of such funds will be within the parameters of the scheme agreed by members. The limit on any such investment will be in addition to the limit set under the criteria above.

Council owned Local Authority Trading Companies (LATCOs) may need to borrow for short periods to cover negative cash flow. Whilst this is unlikely, it is prudent to plan for such an eventuality. The Council will meet such deficits by lending to such companies (at a suitable commercial rate) as a non-specified investment.

Risk Management of Investment Counterparties

Bank and Money Market Fund ratings are checked daily. The Council is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Council's minimum requirement, or any doubt over its financial standing exists, then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

Credit ratings are only the starting point when considering credit risk. The Code of Practice requires the Council to supplement credit rating information with additional operational market information which will be applied before making any specific investment decision from the agreed pool of counterparties. Credit Default Swaps and negative rating watches/outlooks are examined and the financial press, internet and financial information systems are monitored for market information regarding its counterparties. It also receives daily e-mails from various market participants that could identify potential problems. Any information that casts doubt on an institution's creditworthiness is acted on by suspending investment with that institution.

Liquidity of Investments

Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. Investments are normally short term having a maturity of less than one year. The Prudential Code does allow longer term investments and under certain money market conditions it may be prudent to invest for up to three years dependent on cash flow forecasts.

Risk Benchmarking

The CIPFA Codes and the MHCLG Investment Guidance recommend the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks are new requirements although the application of these is more subjective in nature. The benchmarks are simple guides to maximum risk and so may be breached from time to time depending on movements in interest rates and counterparty criteria. The purpose of them is for officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings. A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The Council's minimum credit rating criteria is "BBB". The average expectation of default for a one year investment in a counterparty with a "BBB" long term rating is 0.15% of the total investment e.g. for a £1M investment the average loss would be £1,500. This is only an average and any specific counterparty loss is likely to be higher but these figures do act as a proxy benchmark for risk across the portfolio. The Council's maximum security risk benchmark of 0.15% is embodied in the criteria for selecting cash investment counterparties.

Liquidity - the City Council seeks to maintain liquid short term deposits of at least £5 million available daily.

Yield - the City Council's benchmark for investment returns is the 7 day LIBID rate.

REPORTING ARRANGEMENTS

In accordance with CIPFA's Treasury Management Code of Practice the City Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals, including:

- The Treasury Management Policy Statement – Including prudential and treasury indicators, and the annual investment strategy which approves the parameters on how investments are to be managed.

- A mid-year Treasury Management Report – updating the Council with the progress of the capital position, treasury management activity and performance, and whether any policies and / or prudential and treasury indicators require revision

- An Annual Treasury Management Report – providing details of actual treasury operation as compared to the estimates within the strategy, together with a selection of actual prudential and treasury indicators.

TRAINING ARRANGEMENTS

CIPFA's Code of Practice requires the Chief Finance Officer to ensure that all members with responsibility for treasury management receive appropriate training relevant to their needs and understand their roles and responsibilities. Member training has recently been provided by the Council's external treasury advisors.

Additionally, the training needs of treasury management officers are periodically reviewed as part of staff appraisals and personal development plans. Training options available to officers include professional qualifications from CIPFA, and other appropriate organisations, attendance at workshops and seminars run by the Council’s appointed treasury management advisor; and on the job training in line with the approved Treasury Management Practices.

PERFORMANCE INDICATORS

The Code of Practice on Treasury Management requires the City Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

The Council will maintain performance indicators for both borrowing and investment though it must be stressed that the pursuit of higher performance shall not be at the expense of taking undue risks. The indicators for the treasury function are:

Borrowing - Average rate of borrowing for the year compared to average available.

Investments – Internal returns compared to the 7 day LIBID rate.

The results of these indicators will be reported in the Treasury Management Monitoring and Annual Reports.

TREASURY MANAGEMENT ADVISORS

The City Council currently uses Link Asset Services, Treasury Solutions as its external treasury management advisors appointed under a competitive procurement exercise. The advisors provide access to specialist skills and resources including: -

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

The City Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. Whilst the advisors provide support to the internal treasury function and enhance its effectiveness by the provision of information, the responsibility for any decision on treasury matters remains with the City Council.

CHANGES TO THE TREASURY MANAGEMENT CODE

An updated Treasury Management Code of Practice was published in December 2017; CIPFA guidance is for it to be implemented as soon as reasonably possible with full implementation from 1 April 2019. The updated Code requires authorities to apply treasury management principles to non-treasury investments (for example, investment properties). Details of the City Council's future plans for non-treasury investments are covered in the Capital Strategy Statement,

Schedule 1

MINIMUM REVENUE PROVISION POLICY – 2019/20

Background

1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years which has been financed by borrowing (i.e. not financed by capital receipts, grants or revenue contributions).

2. The statutory requirement per the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] is for each local authority to determine an amount of MRP which it considers to be "prudent".

3. As "prudence" is not defined in the regulations, the Government has issued accompanying statutory guidance (2018) which explains that the broad aim of a "prudent provision" is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement (CFR). In doing so, MRP should be made over a period that is either reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing previously supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant. Each authority must determine what they consider is a prudent amount while having regard to the guidance.

4. The guidance also requires that each local authority prepares an annual statement of its strategic policy on making MRP, to be approved by the full council.

Options outlined in statutory guidance

5. The Council is free to determine its own method for calculating a prudent provision, while having regard to the statutory guidance which includes four options for calculating MRP. The Council can use a combination of the available options if it chooses. The options are as follows:

Option 1 – Regulatory Method

6. This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only, less an adjustment that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.

Option 2 – Capital Financing Requirement Method

7. This is very similar to the regulatory method but it does not take account of the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. For most authorities this method may not be appropriate as it would result in a higher level of provision than option 1.

Option 3 – Asset Life Method

8. This method is appropriate for calculating MRP in relation to debt incurred as unsupported borrowing (also known as prudential borrowing), and must be used for revenue expenditure capitalised by direction or regulation. Under this option there are two methods available:

   (i) **Equal instalment method.** This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset.

   (ii) **Annuity method**. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

9. Under this option authorities should consider the type of assets that they finance through prudential borrowing, as the type of asset and its useful life may have a significant impact on the level of MRP charged.

10. Where expenditure is capitalised by direction or regulation, the guidance specifies certain maximum lives to be used in the calculation (e.g. acquisition of share capital should be financed over a maximum of 20 years).

Finance Leases and PFI

11. The guidance indicates that for finance leases and on-balance sheet PFI contracts, the MRP requirement can be met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the annuity method of Option 3. However the guidance does not prohibit the use of alternative methods for calculating a prudent provision in respect of such contracts.

Option 4 – Depreciation Method

12. This method is appropriate for calculating MRP in relation to debt incurred as unsupported (prudential) borrowing. Under this method, MRP is equal to the amount of depreciation charged on assets funded from unsupported borrowing. The guidance prohibits use of this method for assets classified as “investment properties” (not used in provision of City Council services). This method may cause volatility in the annual charge for MRP because

assets are revalued on a periodic basis, giving rise to significant changes in the amount of depreciation charged. Given this potential adverse impact on future budgets this option is not considered viable for the Council.

Use of Capital Receipts

13. In addition to the four options listed above, the Local Authorities (Capital Finance and Accounting) Regulations 2003 [SI 2003/3146 as amended] allow local authorities to use capital receipts to:
    (i) meet capital expenditure,
    (ii) Repay the principal of any amount borrowed,
    (iii) Meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account.

14. Therefore the application of capital receipts to repay borrowing previously incurred will reduce the level of MRP which an authority needs to set aside from revenue as a prudent provision.

15. Also, proper accounting practices require that for finance leases and PFI contracts the element of the annual rental relating to repayment of the liability is used to write down that liability on the balance sheet and is not charged to revenue. It therefore follows that local authorities are permitted to apply capital receipts to fund the principal element of the annual rental of a finance lease or on balance sheet PFI contract.

Policy Adopted for 2018/19

16. In March 2018 the City Council approved the following policy to determine its MRP for 2018/19:

    (i) For all capital expenditure incurred before 1 April 2008 and for all capital expenditure funded via **supported borrowing**; it is proposed to re-phase the MRP charge relating to this element, while continuing to fully charge the outstanding amount to revenue over the next 46 years to 2063/64. It is proposed to charge £0.5m for each of the financial years 2018/19 and 2019/20 then charge the remaining £339.1m outstanding amount to revenue in equal instalments of £7.7m from 2020/21 to 2063/64.
    (ii) For all capital expenditure incurred after 1 April 2008 financed by **unsupported (prudential) borrowing**; MRP to be calculated using Option 3 (ii) – The Asset Life Method using the annuity method.
        a. Estimated asset lives will be determined by the Chief Finance Officer using the best available information. Asset lives will not be amended once initially determined.
        b. For statutory capitalisations where the guidance specifies maximum life periods to be used, the MRP charge will have regard to these maximum life periods.

c. In accordance with the statutory guidance, MRP will first be charged in the financial year following the one in which the related asset becomes operational.

(iii) For credit arrangements such as **on balance sheet leasing arrangements (finance leases)**; MRP charge to be equal to the principal element of the annual rental.

(iv) For **on balance sheet PFI contracts**; MRP charge to be based on the estimated asset life of the assets provided within the PFI contracts using Option 3(ii) – the annuity method of calculation.
This links the MRP charge to the estimated life of the related assets provided under PFI contracts and so is consistent with the methodology used for other assets funded via prudential borrowing. It should be noted that the MRP charges will continue to be made in respect of the assets after the related PFI contracts have ceased.

(v) The Chief Finance Officer may determine that **capital receipts** are used to repay borrowing for specific schemes and so amend the MRP charge accordingly for those schemes.
For example:

a. where a capital scheme results in an asset that is subsequently leased to a third party via a finance lease, recovering the capital cost of the asset over the term of the lease, the principal repayment element of the finance lease rentals (the element classified as capital receipts) can be used to replace the MRP charge for the capital scheme.
b. Similarly, where a capital loan has been issued, the principal element of the loan repayments can be used to replace the MRP charge for the capital scheme.

In such instances, the lease / loan payments will be kept under review and if it is considered that the loan or lease is impaired and that the principal will not be repaid, then the MRP charge will be reinstated.

Recommended Policy for 2019/20

17. The Chief Finance Officer recommends that for 2019/20 the City Council adopts the same policy for calculating a prudent MRP as for 2018/19.

18. The re-phasing of MRP for supported borrowing is intended to give flexibility for the City Council to temporarily re-direct resources towards transforming service provision and to achieve significant ongoing budget savings as a result of this transformation. From 2020/21 it is planned to revert to the previous methodology so the remaining supported borrowing is fully charged over the following 44 years in equal instalments. This proposal is considered prudent as supported borrowing is still repaid fully over the same timeframe as before while allowing the required budget flexibility over a short term period.

19. The Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the City Council, vary the amounts charged as MRP in the year by making additional and voluntary payments

of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

20. Should any significant variation to borrowing occur then this may require a further MRP determination. Members will be asked to approve such changes at the appropriate times.

Schedule 2

<u>MARKET COMMENTARY BY THE COUNCIL'S TREASURY ADVISORS</u>

The City Council has appointed Link Asset Services as its treasury management advisors and part of their service is to assist the Council to formulate a view on interest rates.

Interest Rate Forecast

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

After the August increase in the Bank Rate to 0.75%, the first above 0.5% since the financial crash, the Monetary Policy Committee (MPC) has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase the Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. ***The above forecast, and other comments in this report, are based on a central assumption that there is an agreement on a reasonable form of Brexit.*** In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

a) The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Schedule 3

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which the City Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

The TMP's are as follows:

TMP 1 - Risk management

TMP 2 - Performance measurement

TMP 3 - Decision–making and analysis

TMP 4 - Approved instruments, methods and techniques17

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

TMP 6 - Reporting requirements and management information arrangements

TMP 7 - Budgeting, accounting and audit arrangements

TMP 8 - Cash and cash flow management

TMP 9 - Money laundering

TMP 10 - Training and qualifications

TMP 11 - Use of external service providers

TMP 12 - Corporate governance

TMP1 - RISK MANAGEMENT

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

1. Credit and Counterparty Risk Management

"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, methods and techniques referred to in TMP4 *Approved instruments methods and techniques*. 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 arrangements."

The Annual Investment Strategy, approved by the full council, sets out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Manager will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising type and specific counterparty limits for inclusion in the Annual Investment Strategy. The Treasury Manager will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

All investments will be in sterling. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities are (a) the security of capital and (b) liquidity of its investments. The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with. Investments will be made with a body or in an investment scheme which has been deemed of a high credit quality by a credit rating agency or with the UK Government or a local authority or a parish or community council. Details of the criteria to be used for selection of counterparties and the list of counterparties meeting that criteria will be shown in the Annual Investment Strategy which normally forms part of the Treasury Management Strategy Report.

Bank and Money Market Fund ratings are checked daily. The council is alerted by e-mail when there is an amendment to the credit rating of any institution. If an amendment means an institution no longer meets the Council's minimum requirement that institution is removed immediately from the counterparty lending list. Should an institution not on the counterparty list achieve the minimum rating that institution can then be added to the list. Treasury Management Consultants will provide a monthly update of all ratings relevant to the council. Credit ratings for individual counterparties can change at any time. The Treasury Manager is responsible for applying the credit rating criteria for selecting approved counterparties.

The Treasury Manager will remove any institution from the Counterparty List regardless of its credit rating should any doubt exist over its financial standing.

2. 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 capital programme within the Medium Term Financial Plan or to finance future debt maturities."

The Annual Investment Strategy (see TMP4) sets out the policies for giving priority to the security and liquidity of the Council's investments. The strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments, and the liquidity of investments. In formulating its strategy, the Council has regard to the CLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

The Treasury Management section shall seek to hold a low credit balance in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable and maximise interest receivable from temporary investment. Borrowing or lending shall be arranged in order to achieve this aim.

A minimum of £5 million funds are kept available in investment accounts. These are accessible at short notice if the bank account would become overdrawn due to e.g. the need to make urgent payments.

A £200,000 bank overdraft at 1% over base rate has been agreed as part of the banking arrangements. The overdraft may be exceeded with no formal limit at a higher rate of interest.

The Council accesses short-term borrowing facilities in the form of temporary loans through approved brokers on the London money market or directly with eligible institutions.

The Council accesses long-term borrowing facilities from the Public works loans Board (PWLB) and can raise long-term loans through approved brokers on the London money market. The PWLB will be used as lender of the last resort if the need arises.

The Council has arrangements for placing surplus funds at short notice into short term investment accounts and money market funds.

3. 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 TMP6 *Reporting requirements and management information arrangements*.

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

The details of the council’s views on interest rates are laid out for the coming financial year in the Treasury Management Strategy Report to Members prior to the year of activity. Interest budgets are set taking those views into account. Borrowing is arranged during each year within the interest rates implied by the budget. Borrowing outside the above guidelines would only be undertaken after consultation with the Head of Corporate Finance.

The Treasury Management Strategy Report is seen as the main strategy document to be used as a guide to interest rates. However it is expected that the Treasury Manager remains alert for any financial disturbance or world event that may trigger extraordinary action that may need to be taken in consultation with the Head of Corporate Finance.

The Treasury Management Strategy Report to council each year approves the following limits: –

- Authorised limit for external debt;
- Operational boundary for external debt;
- Upper limit on fixed interest rate exposures;
- Upper limit on variable interest rate exposures;
- Upper and lower limits for the maturity structure of borrowing;
- Total principal sums invested for periods longer than 364 days.

Borrowing and Investment will take place within the above limits. The limits are consistent with the Council's commitments, plans and budgets for each year.

Borrowing and investment is normally undertaken in the form of time or on-call deposits. Financial instruments for interest rate risk management are used when appropriate. Examples include forward dealing and LOBOs.

Forward dealing - (arrangement of borrowing or investment prior to the date a deal is to commence). Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than one month forward then the approval of the Treasury Manager or Head of Corporate Finance is required.

LOBOS - (borrowing under lender's option/borrower's option). Use of these instruments requires the approval of the Treasury Manager in consultation with the Head of Corporate Finance.

4. Exchange Rate Risk Management

The City Council undertakes all borrowing and investments in instruments denominated in sterling and consequently is not exposed to any exchange rate risk arising from treasury management activity.

The City Council will occasionally make payments to suppliers in foreign currency. The cost of these transactions will be determined by the exchange rate at the date the payment is made and is met from the budget resources available. No foreign currency assets are held as a hedge against currency fluctuation.

5. 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."

Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include the following: -

- Generation of cash savings at minimum risk;
- Reduction of the average interest rate;
- Enhancement of the balance of the long term portfolio e.g. amend the maturity profile or the balance of volatility;

The maturity profile of the council's debt will be reviewed regularly in association with the council's Treasury Management Advisors where necessary. Such reviews will seek to determine whether or not market conditions are suitable for refinancing any of the council's debt to allow more advantageous borrowing terms. The revenue consequences of refinancing will be evaluated prior to the transaction being completed. The effect on the maturity profile prudential indicator will be analysed to ensure that any changes to the profile are within limits. Any rescheduling would only be undertaken after consultation with the Head of Corporate Finance and will be reported to members in the next monitoring report.

6. Legal and Regulatory Risk Management

"The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, 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.

The treasury management activities of the Council comply fully with legal statute and the regulations of the Council. These are:

- CIPFA's Treasury Management Code of Practice;
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities;
- CIPFA Standard of Professional Practice;
- CIPFA Prudential Code for Capital Finance in Local Authorities;
- Local Government Act 2003;
- Local Government Finance Act 1992:
- SI 2003 No 3146 – Local Authorities (Capital Finance and Accounting) (England) Regulations
- SI 2004 No 534 – Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations
- SI 2004 No 3055 – The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No.2) Regulations
- SI 2012 No 2269 – The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.4) Regulations
- MHCLG Guidance on Investments
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets;

- The Code of Practice on Local Authority Accounting;
- The Constitution of Liverpool City Council including Standing Orders and Financial Regulations;
- Liverpool City Council Scheme of Delegation.

Treasury Management activities comply with the Council's statutory powers and demonstrate such compliance when required to parties it deals with in such activities. In framing credit and counterparty policy under TMP1 (5) evidence of counter parties' powers, authority and compliance in respect of the transactions is obtained.

The Council has approved a Treasury Management Policy Statement stating the overriding principles and objectives of its treasury management activities. The Council achieves those principles and objectives by adherence to Treasury Management Practices which prescribe how treasury management activities are managed and controlled.

7. Fraud, Error and Corruption, and Contingency Management

"This organisation 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."

These will be shown in a risk register. The register will be regularly reviewed to maintain the highest standards and minimise operational risk.

The Divisional Manager Audit & Risk will ensure that adequate Fidelity Guarantee Insurance arrangements are in place to cover the council in cases where treasury management related fraud and/or corruption may take place.

Systems and Procedures

Authority:

The Scheme of Delegation to Officers sets out that overall responsibility for Treasury Management is delegated to the Chief Finance Officer. Delegation to other officers is set out in TMP 6 below. All loans and investments, including Public Works Loans Board loans, are arranged by authorized persons.

Records:

A detailed register of loans and investments is maintained by the Treasury Management section. This is regularly checked to the accounting system.

Adequate and effective cash flow forecasting records are maintained by the Treasury Management section to support the decision to lend or borrow.

A written acknowledgement of any transaction is received from the lending or borrowing institution. All transactions placed through brokers are confirmed by a broker note showing details of the transaction arranged by them.

The loans or investments registers are updated to record all lending and borrowing. This includes the date of the transaction, counterparty, principal, interest rate, maturity date, etc. The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy. Spreadsheets are maintained that calculate periodic interest payments to PWLB and other lenders.

Policies:

All lending is only made to institutions on the Approved List. All loans raised and repayments made go directly to and from the institutions bank account.

Authorisation limits are set for every institution but the Treasury manager has delegated power to exceed the limits for short periods when there are adverse conditions in the money markets.

Brokers have a list of named officials authorised to perform loan transactions.

There is adequate insurance cover for employees involved in treasury management.

There is a separation of duties in the Section between the repayment of a loan and its checking and authorization.

Security:

The Bank system can only be accessed by an individual card allocated to each user placed in a card reader and is password protected. One person cannot both input and authorise a payment. Payments can only be authorised by the Treasury Manager, Treasury & Loans Officers or Finance Manager.

Accounting:

Treasury Management transactions and balances are accounted for at the end of each month and at the financial year end. Principal and interest forecasts are made at the end of each month for budget monitoring purposes and reconciled at the end of the financial year. Working papers are retained for audit inspection.

8. Emergency and Contingency Planning Arrangements

Arrangements are set out in the Business Continuity Plan for Treasury Management. In the event of failure of the Internet Banking system then information needed for cash management can be obtained by phone from the bank. CHAPS payments can be made by use of the internet banking systems.

As a final measure, paper forms can be obtained from the bank to enable emergency payments.

9. Insurance

The Council has ‘Fidelity’ insurance cover to mitigate the loss of cash by fraud or dishonesty of employees.

The Council also has a ‘Professional Indemnity’ insurance policy which covers loss to the Council from the actions and advice of its officers which are negligent and without due care.

The Council also has a ‘Business Interruption’ cover as part of its property insurance arrangements.

10. Market Risk Management

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

The Council has no intention of making investments in marketable securities and as such will limit its investment risk by only lending in accordance with the criteria detailed in TMP4 below.

TMP 2 PERFORMANCE MEASUREMENTS

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, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation'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 below.

Performance measures include the following: -

(a) Maintain the security of Council Funds
(b) Provide sufficient liquidity to meet council obligations.
(c) Manage the Councils Borrowing and Investments within Prudential Borrowing Limits set by the Council.
(d) Pay Principal and Interest by the due date
(e) Average investment rate of return compared with benchmark 7 Day deposit rate
(f) Average Interest Rate on new long term borrowings compare with average offered rate

The Council's banking service requirements will be tendered and the process of evaluation must have regard to quality as well as the levels of fees and overdrafts charged.

The Council will employ external treasury management advisers and the appointment will be reviewed regularly.

The Treasury Management function is regularly reviewed and assessed on the way the service is delivered to seek improvements in economy, efficiency and effectiveness.

Treasury Management Consultants carry out reviews of the council's debt portfolio and transactions that have occurred each year to ensure that best practice has been achieved. The Council is an active member of the Core Cities Treasury Management Group and the CIPFA Treasury Management Network. It participates in information gathering exercises and comparisons with other Treasury Management functions are made with a view to establishing best practice.

TMP 3 DECISION-MAKING AND ANALYSIS

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

The Council maintains full records of its treasury management decisions. All decisions are made in accordance with the treasury management strategy, cash flow projections and maturity profiles. Any decision on funding or investing that falls outside the strategy is only taken by the Treasury Manager in consultation with the Head of Corporate Finance. Major changes from the strategy will be reported in the treasury management monitoring reports.

Records

The Treasury section operates a spreadsheet based treasury management system backed up by paper records. All loan transactions are recorded. The following records will be used relative to each loan or investment:

- Daily cash flow projections.
- Loans and Investments Registers
- PWLB loan schedules.
- Local bond certificates.
- Temporary loan receipts.
- Market bond certificates.
- Brokers confirmations for deposits/investments.

Processes to be pursued

- Cash flow analysis.
- Maturity analysis.
- Ledger reconciliations
- Review of borrowing requirement.
- Monitoring of projected interest costs.
- Review of opportunities for debt rescheduling.
- Collation of performance information.

Issues

In respect of every decision made the council will:

- Understand the nature and extent of the risks involved.
- Ensure the legality and authorisation of the decision reached.
- Maintain adequate documentation.
- Ensure that counterparties meet creditworthiness policies and that limits have not been exceeded.
- Ensure that the terms of any transactions are competitive.

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

- Evaluate the economic and market factors
- Consider alternative forms of funding.
- Consider interest rates, periods to fund and repayment profiles.
- Consider the implications for the budgets.

In respect of investment decisions, the organisation will:

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consider alternative investment products and techniques available.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed below and within the limits and parameters defined in TMP1 *Risk management*.

Approved Activities of the Treasury Management Operation

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Leasing;

Investments Strategy

The Council must approve an Annual Investment Strategy in compliance with Government Guidance on Local Government Investments issued under section 15 (1)(a) of the Local Government Act 2003. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments, and the liquidity of investments. In formulating its strategy, the Council has regard to the CLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

All investments will be in sterling. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities are (a) the security of capital and (b) liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The Guidance maintains that the speculative borrowing of monies purely to invest is unlawful and the Council will not engage in such activity.

All cash balances will be invested in accordance with the Code of Practice and with regard to CLG guidance. Under the guidance investments fall into two separate categories, either specified or non-specified investments and there should be further regard to liquidity levels.

A counterparty list of institutions with which the Council will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating.

Specified and Non Specified Investments

Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of less than one year).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency OR
- made with the UK Government or a local Council or a parish or community Council.

Specified investments comprise the following institutions:

- UK local authorities
- Debt Management Account Deposit Facility
- Money Market Funds
- UK Banks
- Foreign banks registered in the UK
- Building Societies with a high credit rating

A high credit rating is interpreted as the Fitch Ratings Ltd criteria currently applied to the lending list. To be deemed highly rated the institution must have a minimum long term credit rating of A-.

The Council also uses the other 2 major credit rating agencies (Moodys and Standard & Poors) to assess the creditworthiness of financial institutions. If any of the agencies assigns a rating lower than the Fitch minimum (or equivalent) to an institution then the Council will not invest with that institution.

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

The credit ratings and monetary or other limits proposed for the categories of investments intended for use by the Council are determined in the Annual Investment Strategy. The categories are as follows: -

- UK Government (including Treasury Bills, Gilts and the DMADF)
- Supranational bonds
- UK local authorities
- Part Nationalised UK Banks
- Money Market Funds
- UK Banks and building Societies
- Foreign banks registered in the UK

The maximum that may be invested with different banks that are part of the same conglomerate shall not exceed the maximum of the highest rated bank within the group. The limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Head of Corporate Finance or Treasury Manager.

Bank and Money Market Fund ratings are checked daily. The Council is alerted by e-mail when there is an amendment to the credit rating of any institution. If an amendment means an institution no longer meets the Council's minimum requirement that institution is removed immediately from the counterparty lending list. Should an institution not on the counterparty list achieve the minimum rating that institution can then be added to the list by the Treasury Manager. The Treasury Manager will remove any institution from the Counterparty List regardless of its credit rating should any doubt exist over its financial standing.

Non-specified investments do not, by definition, meet the requirements of a specified investment. The CLG guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. That detail is included within the Annual Investment Strategy.

Cash balances invested with mutual building societies that do not meet the specified criteria above are classified as non-specified investments. The top ten building societies, determined by asset size, are included on the counterparty list. Those societies that are within the top ten but do not have an agency determined credit rating shall have individual limits determined in the Annual Investment Strategy. Those that are credit rated will have limits determined by the criteria for specified investments. Building Society rankings are checked annually with the Building Societies Association.

Corporate bonds are also classified as non-specified investments. The use of these instruments will be in accordance with the parameters set out in the investment strategy concerning credit ratings and monetary or other limits.

Other non-specified investments relating to special financing or any other arrangements are determined in the Annual Investment Strategy.

All investments will comply with Section 15 (1) (a) of the Local Government Act 2003 and subsequent amendments. The instruments used will normally be term deposits with government agencies, local authorities, banks and building societies and money market funds that meet the criteria set in SI 451 2002 i.e. of the highest credit rating (AAA). Any investment using other instruments will only be made with the approval of the Treasury Manager in consultation with the Head of Corporate Finance.

Risk Management of Investment Counterparties

Bank and Money Market Fund ratings are checked daily. The Council is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Council's minimum requirement or any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

Credit ratings are only the starting point when considering credit risk. The Council monitors the financial press, internet and financial information systems for market information regarding its counterparties. It also receives daily e-mails from various market participants that could identify potential problems. This includes CDS prices, equity prices, rating outlooks and market watches. Any information that casts doubt on an institution's creditworthiness is acted on by suspending investment with that institution.

Liquidity of investments

Each investment decision is made with regard to cash flow requirements (see TMP8) resulting in a range of maturity periods within the investment portfolio. Investments will generally be short term having a maturity of less than one year. The Prudential Code allows longer term investments and under certain market conditions it may be prudent to invest for up to 3 years dependent on cash flow forecasts. Investments for longer than one year will only be made with the approval of the Treasury Manager.

Reporting Arrangements

The Investments Strategy forms part of the Treasury Management Strategy which is agreed by Full Council as part of the budget setting process and referred to Finance & Resources Select Committee for monitoring. An interim report is produced during the year and a final annual report by 30th September following the end of a financial year.

Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003. The Council has a number of approved methods and sources of raising capital finance. These include:

- Public Works Loans Board (PWLB)
- Money Market (long-term)
- Money Market (short term)
- Money Market (LOBOs)
- Stock issues
- Bonds
- Overdraft
- Internal (capital receipts & revenue balances)
- Leasing

All forms of funding will be considered dependent on the prevailing economic climate, availability, regulations and local considerations. The Head of Corporate Finance, and Treasury Manager have delegated powers to arrange the most appropriate form of borrowing from the approved sources and to sign any documentation in relation to that borrowing.

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

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

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

If and when this Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Corporate Finance will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated."

The Treasury Manager 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 Treasury Manager will also ensure that at all times those engaged in treasury management follow the policies and procedures.

The Treasury Manager will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the officers in respect of treasury management are set out below. Officers will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Delegation

The Chief Finance Officer (CFO) has delegated powers in respect of all investment and borrowing matters with the exception of the approval of the Annual Treasury Strategy and Investment Strategy which requires the resolution of full Council.

The CFO has delegated powers to take all executive decisions on borrowing, investment, financing and banking and all activities in this respect will be carried out by her or her staff.

Any decisions with regard to long term borrowing or investments are delegated to the Head of Corporate Finance and Treasury Manager.

The arrangement of short term investments and borrowing arising out of the daily cash flows are delegated to the Treasury Manager, Finance Manager and Treasury & Loans Officers.

All daily money market dealing transactions are carried out by one of the Treasury & Loans Officers or the Finance Manager on the instructions of the Treasury Manager. In their absence the Treasury Manager will have the responsibility.

Each of these officers will have no specific upper dealing limit subject to the overall limit per counterparty as shown in the counterparty list. If there is any doubt whatsoever as to the legality or appropriateness of a possible transaction, it must be referred to either the Treasury Manager or Head of Corporate Finance for a decision to be made.

The CFO has also delegated day to day responsibility for management of the Council's main bank accounts to the Treasury Manager. This delegation covers issues such as opening and closing bank accounts, changing methods of money transmission and negotiating changes to the banking services contract. However, instructions to the bank to implement any changes require the signature of two signatories on the bank mandate. The signatories are as follows: -

- CFO
- Head of Corporate Finance
- Treasury Manager
- Chief Accountant
- Head of Finance

The arrangement of leasing facilities is delegated to the Treasury Manager. The signing of leasing documents is delegated to the Director of Finance & Resources, Head of Corporate Finance, Treasury Manager and Chief Accountant.

The Registrars for the City Council's Stock Issues are the Head of Corporate Finance and the Treasury Manager who have delegated authority to sign stock certificates.

Compliance

The Treasury Manager will ensure that the Treasury Management Policy Statement is adhered to, and if not will bring the matter to the attention of the CFO as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Treasury Manager and duly delegated members of staff to be satisfied that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is the responsibility of the Treasury Manager to ensure that the treasury management function complies with the requirements of the Non-Investment Products Code (formerly known as the London Code of Conduct) for principals and broking firms in the wholesale markets.

Brokers.

The Council may conduct Money Market transactions through money brokers or deal direct with borrowing counterparties. Transactions may be conducted by telephone, fax, e-mail or electronically via the Internet. Direct dealing is carried out by reference to a previously established list of contacts duly authorised by the institutions themselves. When direct dealing, regard is made to current market conditions so that the terms of the deal in respect of interest rate etc. are considered satisfactory.

Settlement Transmission Procedures.

Any monies passing in or out of the Council's bank accounts concerning money market deals will be transmitted via the CHAPS same day payments system. Payments are initiated by a Treasury & Loans Officer or Finance Manager and authorised by the Treasury Manager. Faxed requests for the return of monies held in any deposit accounts must be signed by the Treasury Manager.

Documentation Requirements.

Any borrowing transaction completed is confirmed in writing by the broker and/or lender within 3 working days of the deal. The following information is included:-

- Name of Counterparty
- Address of Counterparty
- Amount of Loan
- Period of Loan
- Interest payable on maturity
- Counterparty banking details

Statement of Responsibilities of each Treasury Post

The Treasury Manager will ensure that there are clear statements of responsibility for each post engaged in treasury management, and that there are arrangements for absence cover. The present arrangements are shown below.

CFO
I
Head of Corporate Finance
I
Treasury Manager
I

Treasury & Loans Officers, Finance Manager
I
Corporate Finance

Chief Finance Officer

The CFO is ultimately responsible for developing, controlling, reviewing and monitoring performance of the overall strategy for treasury management and has delegated responsibility to undertake any treasury management activity.

Head of Corporate Finance

The Head of Corporate Finance is required to report to members in accordance with TMP6.

Treasury Manager

The Treasury Manager is responsible for the delivery of the treasury management strategy and operational and monitoring information to underpin the strategy. The Treasury Manager is responsible for overseeing the day-to-day control of treasury management activities.

The Treasury Manager will ensure there is proper documentation for all deals and transactions, and procedures exist for the effective transmission of funds. The present arrangements are: -

Deals and transactions:

For each deal an electronic daily register is prepared which will contain details of the days deals. The register is initialled by the Treasury & Loans Officer or Finance Manager and either the Treasury Manager or a second Treasury & Loans Officer/Finance Manager confirming the deal.

Transmission of funds

Electronic transmission of funds are made using internet banking systems. Input of a transaction is made by any Treasury Management Officer. Authorisation can only be made by senior officer but cannot be made by the person who input the transaction.

Treasury & Loans Officers/Finance Manager

The Treasury & Loans Officer or Finance Manager will be responsible for developing the cash flow and the day-to-day arrangements for raising short term loans and placing investments in accordance with the Treasury Management Strategy and ensuring completion of documentation relating to transactions.

Treasury & Loans Officers and the Finance Manager are responsible for dealing with counterparties and brokers by telephone, fax and e-mail, or via the internet.

Treasury & Loans Officers and the Finance Manager maintain accounting records for short term loans and investments.

Corporate Finance

Corporate Finance will be responsible for recording the transactions within the accounting system and carrying out the overall bank reconciliation.

Statement of Specific Duties and Responsibilities of each Treasury Post

City Council: -

- Approve Annual Treasury Strategy including Annual Investment Strategy and Prudential Indicators as part of setting a balanced budget.

Audit & Governance Select Committee: -

- Scrutinise Treasury Management activity and monitor the Investment Strategy and Prudential Indicators.

Director of Finance & Resources: -

- Ensure the adequacy of internal audit, and liaising with external audit.
- Submission of strategy reports to City Council as part of the budget setting process ensuring compliance with the balanced budget requirement.

Head of Corporate Finance: -

- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Submission of monitoring reports to select committee.

Treasury Manager: -

- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- Prepare treasury management policy reports as required.
- Prepare budgets and budget variations in accordance with Financial Regulations and guidance.
- Receive and review management information reports.
- Review the performance of the treasury management function.
- Recommend appointment of external service providers in accordance with council standing orders.

- The Treasury Manager has delegated powers to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- Execution of transactions and signing of documentation.
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports as required.
- Identifying and recommending opportunities for improved practices.

Treasury & Loans Officers/Finance Manager: -

- Execution of transactions.
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers.
- Maintenance of up to date accounting records of all transactions.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of 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 organisation's treasury management policy statement and TMPs.

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

The present arrangements and the form of these reports are detailed below.

The CFO will present an Annual Treasury Strategy Report which will include the Annual Investment Strategy, Prudential Indicators and any revisions to the Council's Policy Statement to full council for approval prior to commencement of the financial year to which it relates. This will not preclude the revision of this report at any time of the year if necessary due to legislation or significantly changed market conditions. The report forms part of the annual budget setting process which complies with the balanced budget requirement.

The Head of Corporate Finance will present an interim report to Audit & Governance Select Committee on the activities of the treasury management operation after the end of the first half of a financial year. Other interim reports will be prepared if necessary.

An annual report on treasury management will be compiled by the Head of Corporate Finance and submitted to Audit & Governance Select Committee by 30th September of the financial year after the one to which it relates.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The CFO 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*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The CFO will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *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. The present arrangements are detailed below.

Budgeting

A budget for interest and other treasury management income and expenditure is prepared as part of the budget setting process. The Treasury Manager will prepare budgets for treasury management activities. The Treasury Manager will monitor the budgets through the year and will report significant variations to the Head of Corporate Finance and Director of Finance & Resources.

Accounting

The 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.

Audit

The council will ensure that its auditors, and those charged with regulatory review, 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.

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 CFO 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 Treasury Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] *Liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out below."

In order to maximise control, expertise and economies of scale all cash funds of the Council will be aggregated for the purposes of treasury management unless statutory or regulatory requirements demand otherwise. This does not affect access to funds by budget holders.

Daily cash flow forecasts of all major in and out flows are kept in a diary format. It will be the responsibility of treasury management staff to ensure that the forecasts are kept up to date and are based on the latest available information. Cash flow projections will be prepared on a regular and timely basis. A long term (annual) cash flow projection is made before the start of each financial year. This projection estimates the amounts, and profiles the dates, on which the council's main known incoming and outgoing cash flows (of both a revenue and capital nature) occur. This is reviewed on a daily basis as information is refined and any variations applied.

Each day's cash flow projection is used for more precise day-to-day cash management purposes enabling a borrowing or investment decision to be made. It will be the function of the treasury management staff to calculate from cash flow forecasts the extent of any surplus cash available for investment bearing in mind the need to ensure that the Council's liabilities are adequately covered.

TMP 9 MONEY LAUNDERING

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

Background Legislation

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

Detailed money laundering regulations came into effect on 1st March 2004 under SI 2003 No. 3075 (references to each regulation from the SI are shown in the body of the TMP), and this Statutory Instrument, The Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 cover the main compliance requirements.

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

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2003 (except through this TMP), the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and The Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

Outline of the Requirements of the Regulations and Statutes

Every officer should in the course of Council business implement:

1. **Identification procedures** (SI 2003/3075 Money Laundering Regulations, 4 & 5). This regulation applies if

a). You are forming a business relationship; or
b). Considering undertaking a one-off transaction, and
    i). Suspect a transaction involves money laundering; or
    ii). A payment is to be made for Euro15,000 or more (approximately £10,000)
c). In respect of two or more one-off transactions that the transactions are linked and involve Euro15,000 or more

2. In these instances you should:

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

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

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

5. **Record keeping procedures** (Money Laundering Regulation 6) – The Council should maintain procedures covering the retention of records. To ensure compliance, records are required to be kept for 5 years after the end of the transaction or relationship.

6. **Internal reporting procedures** (Money Laundering Regulation 7) – The Council should maintain internal reporting procedures which document:

a). The "nominated officer" who will be the Money Laundering Reporting Officer (MLRO) who will receive nominations under this regulation;
b). Any other person in the organisation to whom information may arise which may result in them knowing or suspecting reasonable grounds for knowing or suspecting money laundering, fraud or use of the proceeds of crime;
c). If the MLRO receives a disclosure they should consider, in the light of all information, whether it gives rise to such knowledge or suspicion; and
d). If the MLRO determines that the information or matter should be disclosed they should do so to the National Criminal Intelligence Service (see 8. below).
7. **Other procedures** (Money Laundering Regulation 3(b)) – The Council should establish other procedures of internal control and communication as may be appropriate for the purpose of forestalling and preventing money laundering.

8. **Training** (Money Laundering Regulation 3(c)) – The Council should take appropriate measures to ensure that relevant employees are:

a). Made aware of the provisions of these regulations, Part 7 of the Proceeds of Crime Act 2002, Section 117 of the Anti-Terrorism, Crime and Security Act 2001 and sections 18 and 21A or the Terrorism Act 2000 (these deal with the offences and are available from www.legislation.hmso.gov.uk).
b). Given training in how to recognise and deal with transactions which may be related to money laundering.

National Criminal Intelligence Service - In the event of an offence or a possible offence you should contact: NCIS Law enforcement personnel: Contact NCIS initially through 020 7238 8000

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

For Treasury Management Purposes

1. **Training** – Through this document and specific training, treasury staff will be kept aware of developments in money laundering regulations. The Treasury Manager will keep abreast of money laundering issues through publications and the internet. The Treasury Manager will, if required, arrange appropriate training for treasury management staff to ensure that they are kept up-to-date with treasury management issues including money laundering.

2. **Material and regular deposits or borrowing** - For all investment or borrowing counterparties, the Treasury Manager will ensure that the counterparty has been suitably identified. This will take the form of:
a). **Investment Counterparties** – All investment counterparties which are maintained on the Council's lending list will be a deposit taker authorised by a regulatory body such as the FSA. Those counterparties not authorised as a deposit taker through the FSA are institutions such as the Bank of England or Post Office and are not required to be the subject of stringent identification procedures, but Treasury staff will review these on a case by case basis.

b). **Borrowing Counterparties** – All borrowing counterparties are dealt with through either of the following routes:
i). **Via Money brokers** – In this instance Money Laundering Regulations 5(2) applies in as much as the combination of the use of brokers and reasonable grounds that the counterparty carries on authorised business in the UK.
ii). **Direct dealing** – In this instance the Council uses only recognised names, ones with credit ratings and to which the Council has reasonable grounds to expect that the counterparty carries on regulated business in the UK. For a few notable exceptions such as Bank of England or Post Office, the nature of their business does not require stringent identification procedures, but the council will undertake procedures to "know the counterparty".

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

4. **Small or irregular treasury deposits** – The Council does not accept deposits from local institutions or individuals.

Non–Treasury Management Transactions

1. **Regular cash and other receipts** - The Council will in the normal operation of its services accept cash payments from individuals or organisations in relation to rents, Council tax, sundry debtors etc. However the de minimus limit of Euro15,000 applied in the regulations will mean that the requirements of the regulations do not apply to the majority of the Council's customers, unless the Council employee would have reasonable grounds to suspect money laundering activities or proceeds of crime or is simply suspicious.

2. Significant cash receipts should be properly evaluated, evidence gathered and if not supported refused. Any bank payments from unknown or overseas banks should be subject to similar scrutiny.

3. **Occasional receipts from infrequent customers** – The main receipts accepted by the Council will be related to capital receipts from the sale of assets, although any other receipts in excess of Euro15,000 will be reviewed.

4. **Payments** – The majority of the payments by the Council will be via the payroll directly to bank accounts. Similarly the majority of creditor payments will be paid via BACS directly to domestic bank accounts or by crossed cheques and so the same controls will apply. In these cases the relevant bank will be required to comply with the money laundering regulations for their client's further use of the money.

5. **Cash payments** – Other than in approved circumstances and subject to satisfactory due diligence the City Council does not make any cash payments for goods and services.

6. **Refunds** – A significant overpayment which results in a repayment will be properly investigated and authorised before payment.

7. **Fraud** – The council will regularly review risk areas, materiality and probability of loss.

Reporting

The Money Laundering Reporting Officer for this council is the Director of Finance & Resources. Any concern of a transaction possibly being linked to either money laundering or the proceeds of crime must be referred to the MLRO for consideration and if the concerns are validated the NCIS must be notified.

TMP 10 TRAINING AND QUALIFICATIONS

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

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

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

The present arrangements are detailed below.

The present training arrangements involve internal briefings and events based on current and future treasury management activities as well as the attendance at appropriate external seminars and meetings. In addition the council's treasury management consultants will be used as a vital source of information to update the council's treasury management staff on developments in treasury management practices. Depending on their experience, all treasury management staff will be required to attend either the basic treasury management or practitioner's workshop seminars organised by the Council's external treasury management advisers. Such training to be updated on a regular basis by the further attendance at courses or seminars of a similar nature.

Details of any other staff training needs will be identified as part of the training needs analysis undertaken during staff Performance Review and Development (PRD) meetings.

Training and training updates will be provided as appropriate on electronic banking and treasury management systems.

The Core Cities Treasury Management Group and Treasury Management Network events will be attended by the Treasury Manager and/or the Finance Manager or Treasury & Loans Officers. These groups provide a forum for updating and exchanging information and sharing best practice on Treasury Management.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

The City Council recognises that responsibility for treasury management decisions remains with the organisation 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 service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. 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 rests with the Treasury Manager, and details of the current arrangements are set out in below.

External Treasury Management Advisers

The City Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. The procedures for the appointment of such advisors will be governed by the council's contractual standing orders and will involve a full evaluation of the costs and benefits of any bids received. The evaluation will ensure that terms of any appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Advisors are appointed on a contract through the Council's procurement procedures. External treasury management advisers provide advice regarding economic and interest rate forecasting, counterparty creditworthiness reports, PWLB interest rate forecasts, performance indicators, assistance with debt restructuring and general treasury management advice. The quality of advice is evaluated on an ongoing basis by the Treasury Manager and Head of Corporate Finance.

Brokers

The council uses brokers to deal in short term borrowing and investment arrangements and has developed long term relationships with certain brokers over a number of years. The quality of the services provided by brokers is monitored informally on an ongoing basis by the Treasury Manager. Brokers will be selected that obtain the appropriate market rate for investments or borrowing. Brokers fees are fixed for day to day short term transactions but are negotiated on an individual basis for longer term transactions.

TMP 12 CORPORATE GOVERNANCE

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

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

The following documents are made available for public inspection:

- Annual Accounts
- Annual Budget
- Medium Term Financial Plan
- Treasury Management Strategy
- Capital Strategy
- Annual Treasury Report
- Committee Minutes