Shetland Islands Council

Annual Investment & Treasury Strategy

2019-20

Securing the best for Shetland

Contents

Introduction

Regulatory requirements

1.01 This report addresses the requirements of the Scottish Minister's consent and the CIPFA Code of Practice for Treasury Management. There are various requirements attached to the Scottish Ministers' consent, with the production of an Annual Investment Strategy which requires approval by the Council each year, being central to the consent.

1.02 Other requirements of the consent involve the CIPFA Treasury Management Code of Practice. A key principle of the CIPFA Code is that "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

1.03 In line with this principle the CIPFA Code recommends the adoption of the code itself, which was adopted by the Council on 21 March 2012 (Min Ref 25/12), along with an annual review of the four clauses within the code, a Treasury Management Policy Statement and a Treasury Management Practices Statement. All of these requirements are covered by this report.

Investment and Treasury Management Strategies

1.04 The Council adopted a new strategic Investment Strategy for the Council's reserves in August 2018. This annual report compliments that overarching strategy and sets out the Council's approach during 2019-20 that will contribute towards the overall strategy.

1.05 In addition, this report sets out the wider Treasury Management Strategy for 2019-20 which also includes the management of cash. The Council's capital strategy relating to capital investment has been added, the parameters around the Council's borrowing activity are set out in the Borrowing Policy and the Prudential Indicators sections of this report.

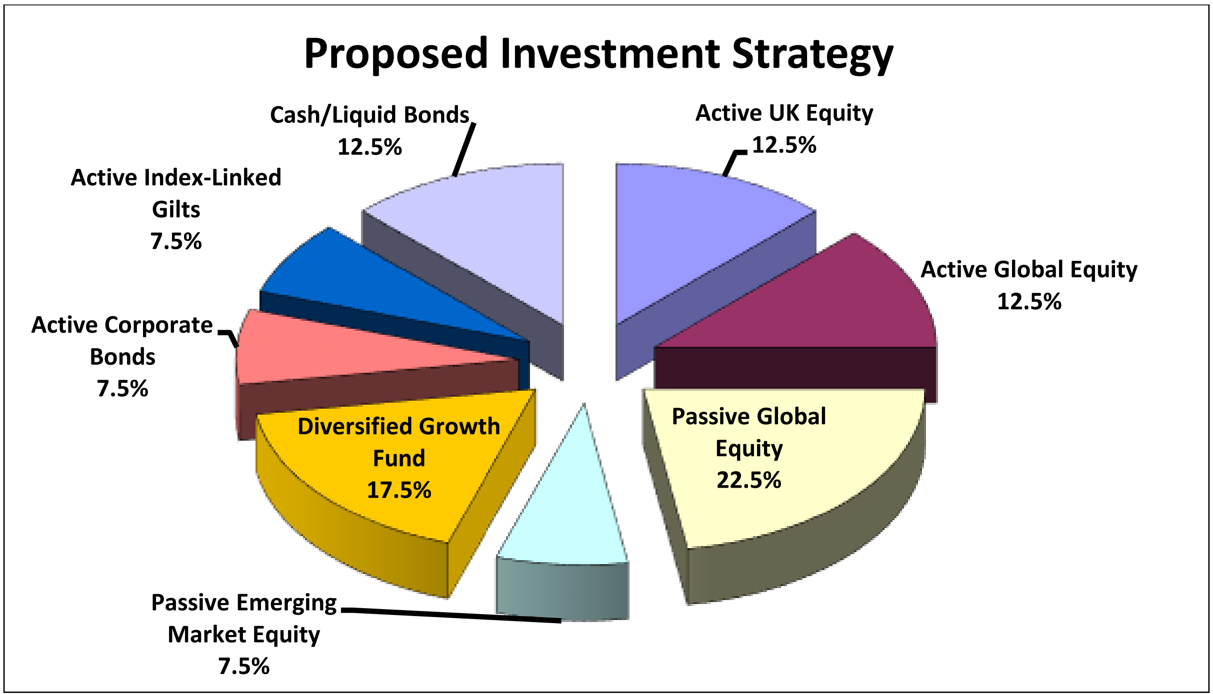
Annual Investment Strategy Statement 2019-20

Long-Term Investments

2.01 Following the adoption of the Medium Term Financial Plan (MTFP) in 2012 the Council undertook a review of its Investment Strategy during 2013/14 in order to ensure that it was aligned to the objectives of the MTFP.

2.02 As a result a new Strategic Investment Strategy 2013-2018 was adopted by the Council in June 2013, which resulted in changes in the way the Council invested its reserves with fund managers.

2.03 The Investment Strategy continues to follow the asset allocation agreed in June 2013, with the following asset allocation:



2.04 The percentages above are the initial benchmark percentages agreed after the reorganisation in October 2013. Throughout 2018/19 these percentages varied depending on withdrawals, market movements and investment returns. These fluctuations are expected over the short term.

2.05 There is no intention to rebase back to the initial percentages, as this would incur additional transaction costs. Any large variations from the benchmark can be controlled when making withdrawals and injections of funds. The fund managers invest as per their investment percentage position and these are constantly monitored by the Council's Treasury function.

2.06 In addition, it should be noted that the cash/liquid bond allocation was designed as the asset class that would be targeted for withdrawals when cash was needed to meet current council expenditure. This is because it is guaranteed not to lose its capital value, thus eradicating the risk of incurring losses when selling investments to meet current expenditure needs. This cash/liquid bond allocation was used for withdrawals and came to an end during 2016/17.

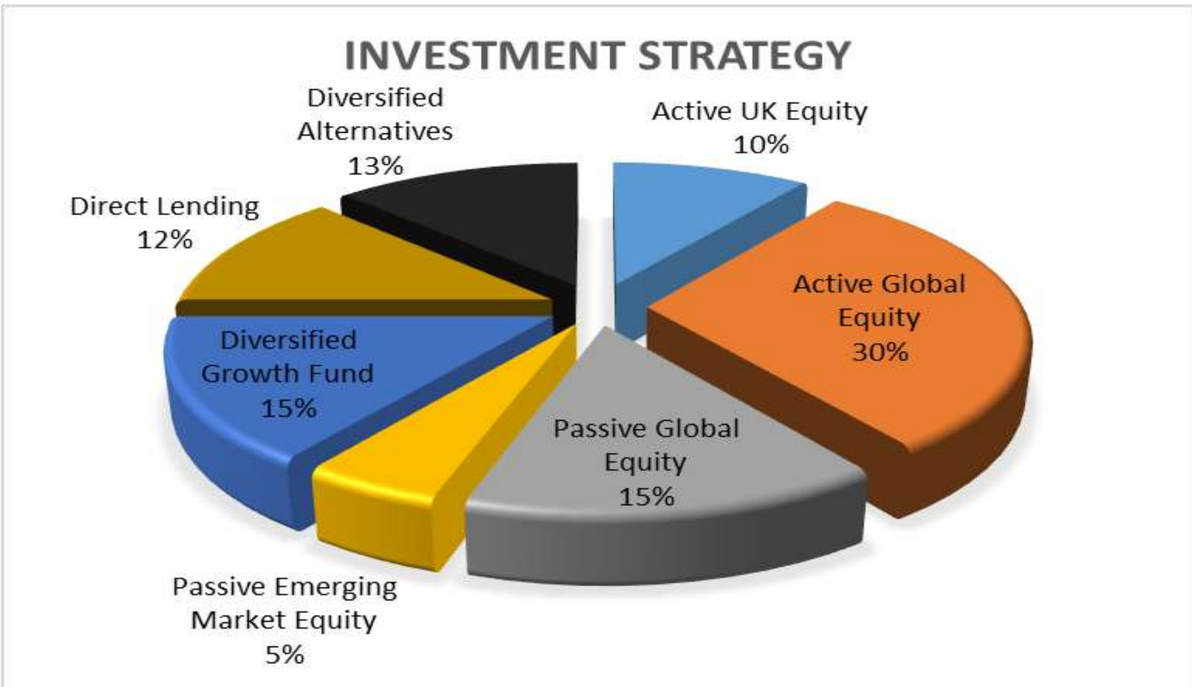
New Investment Strategy

2.07 Investment consultants KPMG conducted an investment strategy review during 2017 and 2018 which resulted in a new investment strategy being approved by the Council in August 2018 (Min Ref: 45/18). The new investment strategy complements the Council's Medium Term Financial Plan 2018/19 - 2023/24.

2.08 The new investment strategy aims to achieve gross investment returns of 7.3% per annum over the long term, through a mix of growth seeking and long term income returning assets. The strategy will offer more protection against any negative impact of market change due to the diversity of investments and its steady income returning investments.

2.09 As a result of the new investment strategy two new mandates were required. These new mandates were in Direct Lending and Diversified Alternatives, both are long term investments for up to 10 year periods which produce a steady income. Two tender process were carried out by KPMG that resulted with the Council awarding two new mandates to fund managers in January 2019 (Min Ref: 01/19).

2.10 The new investment strategy will require the reorganisation of assets from the current asset allocation to the new investment strategy. This reorganisation will take place during the first half of 2019/20. The new investment strategy will have the following asset allocation:



2.11 The main changes that will be required to move from the current investment strategy to the new investment strategy are:

- Cease Index Linked Gilts and Active corporate bond investments
- Reduce Passive global and passive emerging market equity allocations
- Reduce diversified growth allocation
- Increase active equity allocation
- Add direct lending and diversified alternatives investments

These changes involve the movement of large sums of money between fund managers. These movements are coordinated by the Council's treasury service with the involvement of fund managers and the Council's custodian.

Current Investment Position

2.12 The current percentage of funds under management for each fund manager at 31 December 2018 was:

General Fund	**%**
Active UK Equities – Baillie Gifford	15.4
Active Global Equities – Baillie Gifford	16.2
Passive Emerging Market Equities – BlackRock	8.3
Passive Global Equities – BlackRock	24.7
Diversified Growth Fund – Baillie Gifford	22.9
Active Bonds – Insight	12.5
TOTAL	100

2.13 All long-term investments that are managed externally by fund managers are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimizes the risk to the capital sum and optimises the return on the investment consistent with those risks. This involves setting benchmarks for each fund and for each unitised product within the funds. These benchmarks (market indexes, cash plus percentage return) are used to evaluate the performance of each investment against their investment market or set return, with large deviations both above and below these benchmarks questioned similarly.

2.14 All of the long-term investments with "active" mandates require the fund manager to have an investment return target above the benchmark return. The target is a level of outperformance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

2.15 In addition to these long term investments, the Council also has a portfolio of local investments. These investments predominantly take on the form of loans to local businesses. The Medium Term Financial Plan sets out the criteria for awarding these loans which states that the Director of Development Services and Executive Manager – Finance must agree that –

- The loan will generate the Council a rate of return at least equal to the 20 year average fund manager investment returns (net of fees and inflation) in which the Council currently invests. and

- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

2.16 The proposed investment strategy for 2019-20 proposes to continue to adhere to the principles of the Medium Term Financial Plan, with a minimum interest rate set at 5.2% for the forthcoming financial year, which is calculated from the 20 year average fund manager returns (net of fees and inflation).

2.17 In addition the Economic Development Department will ensure compliance with the State Aid Regulations.

Short-Term Investments

2.18 Short–term investments are held in cash, either with the Council's bank or on short-term deposits. These are managed by the Council's Treasury function on a daily basis and reviewed monthly to ensure the efficient operation of Council activities.

Permitted Investments

2.19 Every mandate the Council awards to a fund manager is finalised by both the Council and the fund manager entering into an Investment Management Agreement. This agreement covers all aspects of the mandate, including the type of investments to be held and the minimum and maximum investment levels allowed. Any breach of these set levels must be reported immediately by the fund manager and rectified as soon as practical. No rebasing of the asset class allocation split shall take place during 2019/20 unless with the approval of the Council.

2.20 On an annual basis each fund manager makes available their internal controls report. These reports are produced by their respective external auditors, and review all aspects of the fund manager's operating controls, with any concerns and weaknesses reported. The reports are reviewed by Treasury within Finance annually, with any concerns or issues identified that may impact on the Council reported accordingly.

2.21 The Council does not impose ethical views on fund managers within the Investment Management Agreement. The Council does not place constraints on a fund manager in relation to actual investment decisions, as it would affect the long-term projected investment returns, and the budget set by the Council. The fund manager, within the criteria stated in the Investment Management Agreement, makes investment decisions.

2.22 The Council's current investment strategy set general investment asset class levels, though these are flexible due to money movements and investment income.

Responsible Investment

2.23 Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.

2.24 Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Council will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.

2.25 The fund managers, who will act in accordance with this policy, will exercise voting.

2.26 All of the Council fund managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.

Risk Management

2.27 The authority's investments and financial activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

2.28 The authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Service, under policies approved by the Council in the Investment Strategy Statement.

Credit Risk

2.29 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks or financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least a A- long term Fitch rating
- Bank of Scotland – Council's own bank
- Any bank which is a wholly owned subsidiary of the above
- Any Local Authority

2.30 The A- long term rating is defined by Fitch as "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong." An approved lending list of the financial institutions that meets the criteria will be maintained in Treasury.

2.31 In addition the following guidelines will apply:

- No more than £3 million to be lent to any single organisation from one account, apart from the Council's own bank.

- No more than £6 million to be lent to any one organisation in total from all accounts, apart from the Council's own bank.

2.32 At the 31 December 2018 the Council had deposits and short-term loans with the Council's own bank, amounting to £4.0 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial years' experience, where no default or loss has occurred.

Liquidity Risk

2.33 The authority has external investments with fund managers amounting to £323 million at the 31 December 2018. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

Market Risk

2.34 The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31 December 2018 was diversified between the following main markets:

UK Equities

Overseas Equities

Index Linked Gilts

Corporate Bonds

Cash

The Diversified Growth Fund with Baillie Gifford was invested in 14 different asset classes at 31 December 2018.

2.35 The largest investment is in the Equity markets, about 65% of the Council's Reserves.

Foreign Exchange Risk

2.36 The authority has overseas equities and bonds that are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates can be reduced by the fund managers, through the use of currency hedging strategies to specifically negate any currency movement impact.

Treasury Management Strategy 2019-20

Treasury Management

3.01 Treasury Management is defined as the management of an organisation's investments, cash flows, 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.

3.02 The Treasury Management Strategy details the activities and guidelines to be followed by the Treasury Section for all areas of cash management in the forthcoming financial year 2019/20. Its production and submission to the Shetland Islands Council is a requirement of the CIPFA Code of Practice for Treasury Management in the Public services 2017.

Cash and Bank

3.03 Cash Management for the Shetland Islands Council is carried out within the Treasury Section of Finance Services, and consists of the daily management of various bank accounts and any associated short-term lending.

3.04 The Treasury Section of Finance Services seeks to retain a daily working cash balance in order to ensure that there is sufficient cash available to meet all liabilities as they fall due. The balances on the Council's current account earn an annual return currently 0.7%, and as such it is important to ensure that no excess balances are held in the Council's current account as the returns are far lower than those that can be earned with fund managers.

3.05 There is an agreed overdraft facility with the bank of £800,000 that can be used to cover the accounts managed by Treasury, for any short-term situations if required. However, the Treasury Section seeks to avoid such situations as bank charges will be applied should the current account balance become overdrawn.

Debt Management

3.06 Debt Management is also carried out within the Treasury Section, and this will be undertaken in line with the Borrowing Policy as set out in section 5, and the Prudential Indictors as set out in Section 6 of this report.

3.07 This report also seeks Council approval to provide the Executive Manager – Finance delegated authority to undertake short term borrowing of no longer than 364 days in order to provide greater flexibility to the Treasury Section for managing cash-flow efficiently for payments as they fall due.

3.08 The limits requested for short term borrowing of up to 364 days are included in the Prudential Indicators (Indicator 4 *Authorised Limit for External Debt* and Indicator 5 *Operational Boundary for External Debt*).

3.09 At present it is possible to obtain short term borrowing from other local authorities at an annual interest rate of less than 1%. There may be times during the year that it is more cost effective for the Council to borrow in order to meet a cash shortfall, such as the payment of salaries, rather than automatically recall the money from the externally invested reserves. The Executive Manager – Finance will determine if and when this is the most appropriate course of action.

Shetland Islands Council Capital Strategy 2019/20

Introduction

4.01 This capital strategy is an overarching document which provides an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.02 The Prudential Code for Capital Finance in Local Authorities at section 6 sets out the need for Councils to have a capital strategy in order to demonstrate that they take capital expenditure and investment decisions in line with the service objectives.

Purpose and Aims

4.03 The aim of the Prudential Code is to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the code are to ensure within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable; and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved, and will form a part of the Council's integrated revenue, capital and asset management.

4.04 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the Council. The code stipulates that the capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

4.05 The Capital Strategy aligns with the priorities set out the Council's Plan 2016 – 2020' and supports a number of its ambitions. Such as:

- High standards of governance, will mean that the council is operating effectively and decisions are based on evidence and supported by effective assessments of options and potential effects.
- Excellent financial-management arrangements will ensure a balanced and sustainable budget.
- The Council will have a better understanding of the number of assets it can afford with the resources available, and will reduce the number of buildings with staff in.
- The Council will prioritise spending on building and maintaining assets and be clear on the whole-of-life costs of those activities, to make sure funding is being targeted in the best way to help achieve the outcomes set out in this plan and the Community Plan.

Capital Expenditure

4.06 The Council incurs annual revenue expenditure and longer term capital expenditure. The Capital Strategy concentrates on the longer term capital projects and corresponding expenditure. To effectively manage these large capital projects the following governance arrangements and processes are in place. Details of these arrangements can be found in the Council's Financial Regulations, where the Capital Planning section states the requirements for an Asset Investment Plan (AIP).

4.07 The Council sets an annual five-year AIP which details at a high level the individual projects that are to be undertaken and in which year. The AIP is reviewed and re-prioritised on an annual basis by the Policy and Resources Committee, who then recommend it to the Council for approval. Ensuring that the AIP is prepared each year is the responsibility of the Executive Manager – Capital Programme and the Executive Manager – Finance.

4.08 Council approval of the Asset Investment Plan gives Managers the authority to incur the appropriate expenditure, so long as the Gateway Process for the Management of Capital Projects has been followed.

4.09 The following table provides an overview of the Council's Capital Programme, included within the Council's AIP and how it is to be funded from 2019 up to 2024:

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Projects	**£**	**£**	**£**	**£**	**£**
Maintenance of Existing Assets	9,673,329	6,864,504	5,766,800	4,534,800	5,142,450
New Developments	8,013,606	2,258,000	0	0	0
Housing Revenue Account Projects	3,546,000	5,992,000	5,968,000	6,034,000	6,064,750
Potential Projects	2,701,008	2,700,000	0	0	0
Fair Funding for Ferries Projects	2,700,000	12,650,000	22,000,000	9,200,000	7,700,000
Total	**26,633,943**	**30,464,504**	**33,734,800**	**19,768,800**	**18,907,200**
Funded By					
External Grants	(12,226,000)	(19,575,000)	(27,525,000)	(14,725,000)	(13,225,000)
Reserves	(8,818,134)	(9,909,504)	(6,209,800)	(5,043,800)	(5,725,334)
Borrowing	(5,589,809)	(980,000)	0	0	0
Total	**(26,633,943)**	**(30,464,504)**	**(33,734,800)**	**(19,768,800)**	**(18,907,200)**

4.10 The Council set up an Asset Investment Group (AIG) with the responsibility for the overview of the Council's Asset Investment Plan. It is chaired by the Executive Manger – Capital Programme and consists of the members of the Corporate Management Team (CMT).

The purpose of the AIG is to:

- Receive and assess proposals for new projects from individual services.
- Assess requests from Services to vary the scope or nature of projects.
- Make recommendations to Policy and Resources Committee on existing projects. This includes recommendations on project prioritisation when the number of projects being brought forward exceeds existing budgets.
- Review and report on the progress of the Asset Investment Plan and Asset Strategy

4.11 Reports are prepared on a quarterly basis and presented to the Policy and Resources Committee by the Executive Manager – Capital Programme and the Executive Manager – Finance to provide Members with a progress report on the AIP and monitoring reports on capital expenditure for each capital project within the current financial year.

4.12 A document which supports the AIP is the Council's Asset Strategy. The Council's Asset Strategy is the document which sets out how the Council plans to manage its estate moving forward. It describes how it is aligned with other strategic documents and the Council's current policies, priorities and outcomes. It establishes how the Council intends to deal with non-operational assets and its commercial portfolio.

The Gateway Process

4.13 To ensure that all capital projects put before the AIG for consideration are supported by key stakeholders and that it contributes to the overall strategy of the Service and Council, the Council has established a Gateway Process to follow for all Capital Projects.

4.14 Appropriate use of assets can make the difference between good and poor service delivery. The Gateway Process provides a mechanism to effectively coordinate asset management and capital investment.

4.15 Responsibility for proposing to the AIG that a project be included in the AIP is given to a project sponsor. This is a senior officer from within the Service where the project originated. For capital projects to be include in the AIP they all require to be assessed through the Gateway Process.

4.16 The Gateway Process examines projects at key decision points in their lifecycle and looks ahead to provide assurance that they can progress successfully to the next stage. The overall objectives of the Gateway Process are to ensure that projects are delivered on time; to the right quality and to the right cost thus ensuring that they deliver value for money, and that the outcomes expected from the project are realised.

4.17 The Gateway Process requires that the project sponsor demonstrates how the project fits into their current Service and Directorate Plans, as well as how the project supports the aims and aspirations for the Council's Plan and the Shetland Partnership Plan. This helps to ensure that capital investment decisions of the Council are closely aligned to its wider objectives.

4.18 The Council's Gateway Process has been developed around the 'Five-Case Model' and requires that five aspects of a project are evaluated or re-evaluated at a number of stages through the development of the project. The five cases that need to be evaluated are:

- Strategic
- Economic
- Commercial
- Financial, and
- Management

4.19 Relevant Senior Officers and members of the AIG are responsible for ensuring the Gateway Process is followed properly.

4.20 An important element of the Gateway Process is ensuring that proposed projects comply with the Council's Capital Expenditure Policy, which is part of the Council's Medium Term Financial Plan (MTFP).

4.21 The determination if Council expenditure is deemed to be capital expenditure will be at the sole discretion of the Executive Manager – Finance.

4.22 If expenditure does not qualify as capital it will fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts, Government Support Grants or by spreading the cost over future year's revenues. Examples of eligible and ineligible costs can be found in the Council's Accounting Policy for Capital Assets (Non-Current Assets).

4.23 The Capital Expenditure Policy establishes that only projects where a robust estimate of costs have been undertaken are allowed to be included in the AIP. Once a project is approved by the AIG the Executive Manager – Finance will determine how it is to be funded in accordance with the Prudential Code.

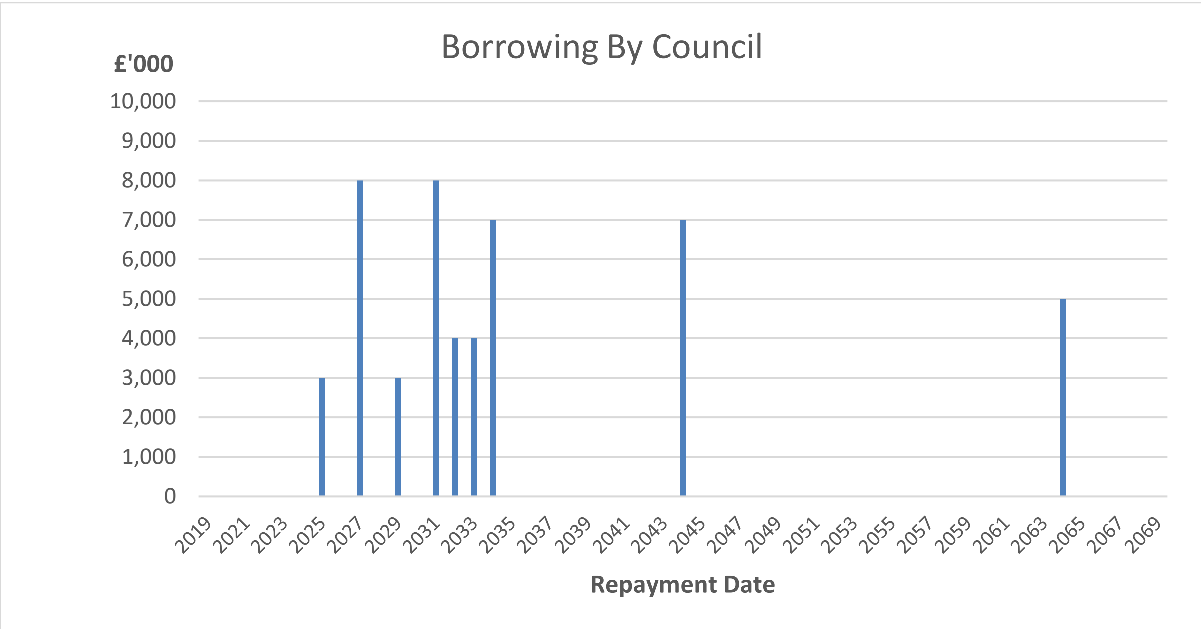
4.24 The funding sources available to the Executive Manager – Finance for capital projects is set out in the Council's Funding Policy in the MTFP. As per this policy various funding options are available such as Scottish Government Capital Grants, capital receipts, capital funded from current revenue but if these options are not available then capital expenditure can be financed by borrowing.

4.25 There are certain requirements before borrowing can be used, where interest rates on borrowing must be lower than the return on long term investments, and the service benefitting from the capital asset will be required to make sufficient revenue savings to free up budget to pay for the cost of capital (interest charges plus capital).

4.26 The Council has an approved a borrowing policy and a set of prudential indicators which set the financial parameters for borrowing. The Executive Manager – Finance as Section 95 Officer is the only Officer of the Council who may recommend a decision to borrow to the Council.

4.27 When a decision to proceed to borrow has been taken by Council, the Executive Manager – Finance will determine the institution, the type, the timing, and the length of the loan after seeking advice from external Treasury Management specialists as to the most economically advantageous transaction.

4.28 All external borrowing to date has been from the Public Works Loan Board (PWLB) on a Maturity basis, where the money borrowed is repaid back at the end of the loan period. As at the 31st December 2018 the Council has borrowed a total of £49 million from the PWLB. The graph below shows the Council's current borrowing from the PWLB, the value of each loan and the year when the loan will mature and be repaid.



4.29 Within the Prudential Indicators there are various annual borrowing limits for the Council. For example the following borrowing limits for 2019/20 have been set at:

- £110 million of external debt for the Council
- An operational boundary for external debt for the Council of £88 million

These figures and other authorised limits can be found in the Prudential Indicator section of this document.

Treasury Management

4.30 The Council's Treasury Section under guidance of the Executive Manager – Finance manages all investments, cash and Council borrowing as covered by the Annual Investment Strategy.

4.31 The Council has adopted the Revised CIPFA Code of Practice for Treasury Management in Public Services 2011 (The Code). This sets out three key principles:

- The need to put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management functions.
- That these documents make it clear that the effective management and control of risk are prime objectives of treasury management activities and clearly set out where responsibility lies within the organisation.
- That there is a pursuit of value for money in treasury management and the use of suitable performance measures to support business/service objectives.

4.32 To meet the Code there are various documents in place to support investment and treasury management, such as the Investment Strategy, Borrowing Policy and the Annual Investment and Treasury Strategy.

Risk within Capital Projects

4.33 The prime policy objectives of local authority investment activities are the security and liquidity of funds, and authorities should avoid exposing public funds to unnecessary or unquantified risks. However, all treasury management activity is subject to risk. Included in the Council's Financial Regulations are governance arrangements for Capital Projects, which help to manage and reduce risks to the capital strategy.

4.34 Within the Council's governance arrangements, there is a requirement that capital monitoring reports are presented to the Council's Policy and Resources Committee on a quarterly basis. These reports also review risk data and narrative which enables the Council to effectively monitor and manage the overall risks of the capital programme. Risk registers are maintained and managed by relevant senior officers and are considered within the Council's risk management arrangements.

4.35 Risk management is carried out by the Treasury Service, under policies approved by the Council in the Investment Strategy Statement. Section 1 of the Statement of Treasury

Management Practices details the following risks and the arrangements the Council has in place to mitigate them:

- Credit and Counterparty Risk Management
- Liquidity Risk Management
- Interest Rate Risk Management
- Exchange Rate Risk Management
- Legal and Regulatory Risk Management
- Fraud, Error and Corruption and Contingency Management
- Market Risk Management

Commercial Activity

4.36 The Council has a portfolio of local investments, predominantly in the form of loans to local businesses. These however only account for a small percentage of the overall investments of the Council.

4.37 The Medium Term Financial Plan sets out the criteria for awarding these loans which states that the Director of Development Services and Executive Manager – Finance must agree that:

- The loan will generate the Council a rate of return at least equal to the 20 year average fund manager investment returns (net of fees and inflation) in which the Council currently invests, and
- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

4.38 The Council has a history of lending to businesses in order to deliver on its Economic Development objectives. This was further extended by the transfer of the Shetland Development Trust (SDT) assets to the Council in the months leading up to the formal winding up of the Trust in February 2015.

4.39 In addition to lending to businesses the SDT assets included fishing quota which is managed on behalf of the Council by the Shetland Fish Producers Organisation (SFPO).

4.40 The Council has approved a sum of £15 million to be set aside to support the Commercial Lending Service. Lending is based on a set of criteria and a detailed process and procedure is followed in approving new lending. Basic criteria include:

- The loan will generate for the Council, a rate of return at least equal to the markets; and
- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

Knowledge and Skills

4.41 The Council has access to a wide range of knowledge and skills, both in house, and from external consultants. The Council use external consultants that specialise in cash and debt management to assist and advise on the funding of the capital strategy.

4.42 It is the responsibility of the Executive Manager – Finance to ensure that all staff under their authority receives the level of training appropriate to their duties. Training is provided by external advisors as well as on the job training. Further details are provided within the Statement of Treasury Management Practices section of this document.

Shetland Islands Council Borrowing Policy

Treasury Management

5.01 The definition of Treasury Management at 3.01 is intended to apply to all public service organisations in their use of capital project financings, borrowings and investments.

5.02 The Council's Borrowing Policy was produced so that the Council could in future use borrowing as a tool within its overall Treasury Management arrangements.

Internal Borrowing versus External Borrowing

5.03 The economic case for borrowing externally or using the Council's own reserves to finance capital expenditure is essentially down to whether interest rates are higher or lower than the long term average return on the Council's external investments (with fund managers).

5.04 If interest rates are higher than the long term rolling average return on the Council's investments (currently 5.2%) then it means the cost of borrowing is higher than the lost income forgone by using reserves, so it would make financial sense to use reserves for capital expenditure.

5.05 For example, if interest rates were 10% for a £1m loan -
Annual interest payable on £1m at 10% = £100,000
Investment income of 5.2% generated on £1m = £52,000

In this example to borrow would cost £100,000 a year, and to use reserves would present an opportunity cost of £52,000 in lost investment income. In this example, using reserves would present a saving of £48,000 per year over using borrowing.

5.06 However, the reverse is true if interest rates are lower than the long term average return on the Council's investments (currently 5.2%). For example if interest rates were 2% for a £1m loan -

Annual interest payable on £1m at 2% = £20,000
Investment income of 5.2% generated on £1m = £52,000

In this example, to borrow would cost £20,000 a year and to use reserves would present an opportunity cost of £52,000 in lost investment income. In this example borrowing would save the Council £32,000 per year.

5.07 Therefore when interest rates are lower than long term investment returns, the default position of the Council should be to borrow in order to achieve a Best Value outcome.

The Cost of Borrowing

5.08 Shetland Islands Council has been in the unique position of having significant reserves which in the past it has used to fund its capital expenditure. This has in effect meant that from a service perspective point of view, new assets have essentially been a “free good”. When borrowing is used to finance capital expenditure the service is required to make provision for debt charges (principal debt repayment and interest costs), which is a significant difference to the previous practice for General Fund capital expenditure where no service paid for its assets financing costs. This should be borne in mind when a decision to borrow is taken.

5.09 In order to secure Best Value in the financing of capital expenditure, the Council should use its statutory powers to consider borrowing as an option to do this. In order to regulate and monitor Council borrowing, the Council has a borrowing policy and a set of prudential indicators to set the financial parameters for borrowing.

Shetland Islands Council Borrowing Policy

The Council's borrowing policy will be as follows:

- Borrowing should only be considered as a financing option when the interest rate obtainable is lower than the 20-year average return on the Council's external investments (i.e. Fund Manager returns);

- Borrowing will only be undertaken for capital projects, with a presumption against funding of short life assets (i.e. assets with less than a 5 year useful economic life);

- Borrowing should only be considered for priority capital projects that are supported by a full business case;

- Members must be fully advised of the ongoing revenue implications arising from each recommendation to borrow before a decision is taken by Council;

- If Members decide to borrow, they must also agree how the relevant Council directorate will be able to fund the borrowing costs (i.e. interest and principal repayments) within its existing Target Operating Budget as set out in the Medium Term Financial Plan;

- Borrowing can only be undertaken within the parameters of the Prudential Framework and the Prudential Indicators which will be agreed annually by Council;

- Borrowing may be undertaken up to 2 years in advance of its deployment to finance agreed capital expenditure if expectations on future versus current interest rates make it financially advantageous for the Council to do so;

- The Council will never borrow for the purposes of investing to make a profit;

- The Executive Manager – Finance as Section 95 Officer is the only officer of the Council who may recommend a decision to borrow to Council;

- When a decision to proceed to borrow has been taken by Council, the details of the loan(s) will be delegated to the Executive Manager – Finance who will determine the institution, the type, the timing, and the length of the loan after seeking advice from external Treasury Management specialists as to the most economically advantageous transaction;

Treasury Management Prudential Indicators 2018/19 to 2021/22

Prudential Framework

6.01 The Local Government in Scotland Act 2003 repealed Section 94 of the Local Government (Scotland) Act 1973. Sections 35 to 37 of the 2003 Act introduced a responsibility for local authorities to locally determine the level of capital investment. Regulations introduced under the Act required that local authorities should adhere to The CIPFA Prudential Code for Capital Finance in Local Authorities.

6.02 The Prudential Code was introduced in April 2004, effectively replacing the Capital Expenditure controls within section 94 where ministerial consent was required before any capital expenditure could be incurred. In addition, there was a restriction on the commitment to capital expenditure for future years and a control over the actual financing of the capital expenditure. The ‘prudential framework’ (or prudential regime) is the collective term for legislation, regulation and the Code under which local authorities will operate.

6.03 The introduction of the Prudential Code brought much greater flexibility for Councils to develop capital expenditure programmes to support their local communities. The key watchwords within the Prudential Code are:

- Affordability
- Prudence
- Sustainability

6.04 The Prudential Code provides a framework for the internal control and self-management of capital finance, and in turn the key items of expenditure that will normally govern the bulk of an authority’s potential need to borrow. It does also refer to the fact that forward estimates of external debt, defined in part as actual external borrowing, will follow on from an authority’s capital plans and revenue forecasts, under their treasury management strategy. The Prudential Code also requires that the underlying commitment to finance leases and similar contracts is recognised when setting the indicators.

6.05 It is understandable that the Prudential Code seeks to concentrate primarily upon a need for an authority to ensure that its capital spending plans are affordable, as it is these plans that will, in general, be the main driver of an authority’s need to undertake or increase the amount of external borrowing. The opening paragraph of the Executive Summary makes clear its overriding objective, namely “The Prudential Code plays a key role in capital finance in local authorities”, whilst paragraph 7 of its Objectives states that it focuses on capital finance and effective capital planning. The Prudential Code perhaps sums up the overall situation regarding the consideration of affordability in paragraph E18, wherein it states – “In considering affordability, the authority is required to consider all of the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts".

6.06 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs from the capital expenditure plans are reflected in Prudential Indicators, which are designed to assist Members overview and confirm capital expenditure plans.

6.07 In setting their prudential limits, Members must have regard to:

- Affordability e.g. implications of capital plans for council tax and council housing rents.
- Prudence and sustainability, e.g. risk, implications for external debt and whole life costing.
- Value for money, e.g. option appraisal.
- Stewardship of assets, e.g. asset management planning.
- Service objectives, e.g. strategic planning for the authority.
- Practicality, e.g. achievability of the forward plan.

Prudential Indicators

6.08 It is proposed that the Prudential Indicators for Shetland Islands Council for 2018-19 to 2021-22 should be as follows:

1. Ratio of Financing Costs to Net Revenue Stream

Definition

General Fund - The proportion of the General Fund income from the Council's General Revenue Grant (including NNDR), Council Tax income and sustainable contribution from Reserves and Harbour Account to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Housing Revenue Account - The proportion of income to the HRA (substantially housing rents) to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Harbour Account - The proportion of Harbour Account income (mainly fees & charges) reduced by the planned sustainable contribution to underpin General Fund services, to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Ratio of Financing Costs to Net Revenue Stream					
	2017/18 Actual	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
General Fund	3.0%	5.0%	5.0%	5.0%	4.9%
HRA	17.7%	17.3%	16.5%	16.7%	16.3%
Harbour Account	2.3%	4.1%	6.5%	5.0%	5.5%

2. Capital Expenditure

Definition

Actual capital expenditure for 2017/18 and estimated capital expenditure for the current year and the next three years, as set out in the Council's Asset Investment Plan 2018-23.

Capital Expenditure					
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
General Fund	61,102	20,175	11,088	8,167	4,388
HRA	3,035	3,735	3,546	5,992	5,968
Harbour Account	9,621	13,654	12,000	16,386	23,379
Total	**73,758**	**37,564**	**26,634**	**30,545**	**33,735**

3. Gross Debt and the Capital Financing Requirement

Definition

The CFR reflects the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. As the Council should only borrow for a capital purpose, the debt should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Capital Financing Requirement					
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
General Fund	72,508	70,467	64,813	49,221	23,037
HRA	15,593	14,785	13,976	13,168	12,360
Harbour Account	8,054	7,732	10,564	23,276	45,338
Total CFR	**96,155**	**92,984**	**89,354**	**85,665**	**80,735**
Gross External Debt		**89,354**	**89,354**	**85,665**	

4. Authorised Limit for External Debt

Definition
Limit for total external debt that should not be breached. This excludes investments and is based on future capital plans and variations in cash flow.

Authorised Limit for External Debt					
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Borrowing	43,379	41,478	39,182	36,900	33,356
Other Long Term Liabilities	51,293	50,023	48,688	47,282	45,896
25% Margin	23,668	22,875	21,968	21,045	19,813
Total	**118,340**	**114,376**	**109,838**	**105,227**	**99,064**

5. Operational Boundary for External Debt

Definition
A boundary for total external debt based on the estimate of total projected external debt to be monitored against during the year. It may be breached temporarily for variations in cash flow but a sustained or regular breach would require investigation.

Operational Boundary for External Debt					
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Borrowing	43,379	41,478	39,182	36,900	33,356
Other Long Term Liabilities	51,293	50,023	48,688	47,282	45,896
Total	**94,672**	**91,501**	**87,871**	**84,182**	**79,251**

6. Actual External Debt at 31 March 2017

Definition
The actual external debt taken from the Balance Sheet as at 31st March 2018.

Actual External Debt	
	31 March 2018 £000
Borrowing	41,229
Other Long Term Liabilities	50,023
Total	**91,252**

7. Upper limit on Interest Rate Exposures

Definition

Ranges within which the Council will manage its exposures to fixed and variable rates of interest. Whilst the Council could obtain more favourable interest rates with a variable rate, it increases the longer term risk of rates rising beyond a fixed rate.

It is calculated as a percentage of total net outstanding principal sums of debt.

	2017/18 Actual £'000	2018/19 Indicative £'000	2019/20 Indicative £'000	2020/21 Indicative £'000	2021/22 Indicative £'000
Fixed interest rate exposures	100%	100%	100%	100%	100%
Variable interest rate exposures	0%	40%	40%	40%	40%

8. Maturity Structure of Borrowing

Definition

Upper and lower limits to assist the Council to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. This is the fixed rate debt maturing in each period as a percentage of total projected borrowing that is fixed rate.

	2017/18 Actual	Lower Limit	Upper Limit
Under 12 months	0.07%	0%	25%
12 months and within 24 months	0.09%	0%	30%
24 month and 5 years	0.23%	0%	50%
5 year and within 10 years	26.85%	0%	70%
10 years and above	72.76%	0%	100%

CIPFA Code of Practice

7.01 The CIPFA Code of Practice for Treasury Management in the Public Services (2017) states as a key principle, "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

7.02 The following four clauses as recommended by the CIPFA Code were adopted by the Council on 21st March 2012 (Min Ref: 25/12). These clauses reinforce the Code's key principle for effective management and control. As per the CIPFA Code it is recommended that these clauses are reviewed annually.

Clauses

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. Shetland Islands Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. Shetland Islands Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Executive Manager – Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Policy and Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

8.01 As part of the adoption of the CIPFA Code of Treasury Management in the Public Services the Council is required to produce and approve a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities. This policy statement follows a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services, and is subject to annual review.

8.02 The Shetland Islands Council defines its treasury activities as:

> "The management of the authority'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".

8.03 The Shetland Islands Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

8.05 The Prudential Code removed limits on Council's on borrowing to finance capital expenditure, though this is balanced by additional responsibility to act prudently, and to take account of affordability when making decisions on borrowing. The Shetland Islands Council in compliance with the Prudential Code has set borrowing indicators at section 6.08.

8.06 All investments are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimises the risk to the capital sum, and optimises the return on the investments consistent with those risks.

Statement of Treasury Management Practices

9.01 The Council Adopted the CIPFA Code of Treasury Management in the Public Services on the 21 March 2012 (Min Ref: 25/12), along with this code were four clauses, which were also formally adopted. Within these clauses the following was stated that this organisation will create and maintain, as the corner stones for effective treasury management, suitable treasury management practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities."

9.02 The following TMP's are recommended by CIPFA as relevant to an organisations treasury management powers and the scope of its treasury management activities.

TMP1 Treasury Risk Management

The Executive Manager – Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting Requirements and Management Information Arrangements*.

In respect of each of the following risks the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. <u>Credit and Counterparty Risk Management</u>

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

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 which 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 and listed in the schedule to this document.

2. <u>Liquidity Risk Management</u>

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

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.

3. Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

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 TMP6 reporting requirements and management information arrangements.

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

4. Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

5. Legal and Regulatory Risk Management

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

This 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.

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 Council.

6. Fraud, Error and Corruption and Contingency Management

The risk that a Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This Council will ensure that it has identified the circumstances that 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.

7. Market Risk Management

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

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

TMP2 Performance Measurement

This Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. There will be regular review of the scope for potential improvements.

TMP3 Decision-Making and Analysis

This Council will maintain full records of its major 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 in the schedule to this document.

TMP4 Approved Instruments, Methods and Techniques

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

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

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

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with the implementing and controlling of 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 the Council intends as a result of lack of resources or other circumstances to depart from these principles, the Executive Manager – 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 Executive Manager – Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. They will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

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

TMP6 Reporting Requirements and Management Information Arrangements

This Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the 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 Executive Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The Executive Manager – Finance 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 a minimum be those required by statute and regulation, together with such information as will demonstrate compliance with TMP1 Treasury Risk Management, TMP2 Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques.

The Executive Manager – Finance 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.

This 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 necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Executive Manager – Finance, and will be aggregated for cash flow and investment management purposes. Cash Flow projections will be prepared on a regular and timely basis to ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.2) Liquidity Risk Management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 Money Laundering

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

TMP10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. 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.

Training may also be provided on the job and it will be the responsibility of the Executive Manager – Finance to ensure that all staff under their authority receives the level of training appropriate to their duties. This will also apply to those staff who, from time to time cover for absences from the treasury management team. The Executive Manager – Finance will recommend and implement the necessary arrangements.

TMP11 Use of External Service Providers

This Council recognises that responsibilities for treasury management decisions remain 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 services providers, it will ensure it does so for reasons which will 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 and properly agreed, documented, and subjected to regular review. 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 Executive Manager – Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 Corporate Governance

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

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

The Executive Manager – Finance will maintain, separate from this document, schedules specifying the systems and routines to be employed and the records to be maintained to ensure adherence to these principles.