

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

meeting date: 28 MARCH 2023
title: TREASURY MANAGEMENT POLICIES AND PRACTICES 2023/24
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 To review, approve and adopt the Treasury Management Policy Statement and Practices for 2023/24.
- 1.2 Recommend to Council the Treasury Management Policies and Practices 2023/24.

2 BACKGROUND

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

3 TREASURY MANAGEMENT POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

- 3.1 The revised Treasury Management Policy Statement and Treasury Management Practices are shown at Appendix 1 within the Treasury Management Policies and Practices document.
- 3.2 The Treasury Management Policy Statement follows the wording recommended by the latest edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2021 Edition.
- 3.3 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities
- 3.4 The Treasury Management Practices are split as follows:
 - **Key Principles:** *which follow the wording recommended by the revised CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
 - **Schedules:** *which cover the detail of how the Council will apply the key Principles in carrying out its operational treasury activities*
- 3.5 Since the treasury management policy statement and treasury management practices were last approved in March 2022, there have not been any further changes to the CIPFA Treasury Management Code and so the majority of the document remains unchanged.

4 COUNTERPARTY LIMITS

- 4.1 Investment limits and the organisations with whom we are authorised to place deposits is set out in the counterparty list on page 23 of the Treasury Management Policies and Practices at Annex 1.
- 4.2 To allow for greater flexibility in our treasury management operations we are proposing the following increases to the council's counterparty limits. These have been proposed following review at a senior level and following comparison with the limits in place at neighbouring authorities.

Organisation	Current Limit	Proposed Limit	Compared to Neighbouring Authorities
Government Debt Management Office (DMO)	£5m	Unlimited	All unlimited with the exception of one council with a limit of £2m
Banks	£1.75m	£5m	A range of between £1.5m and £8m, with an average of £4.5m
Building Societies	£1.75m	£3m (with a sector limit of £5m)	
Other Local Authorities*	£2.5m	£5m	A range of between £2m and £12m, with an average of £5.3m

**The council's counterparty list also includes Police and Crime Commissioners, Fire and Rescue Services and Transport Authorities within this category.*

5 RECOMMENDED THAT COMMITTEE

- 5.1 Review, approve and formally adopt the Treasury Management Policies and Practices document as attached at Appendix 1, incorporating the
- Treasury Management Key Principles
 - Treasury Management Policy Statement
 - Treasury Management Clauses
 - Treasury Management Practices and Schedules

- 5.2 Recommend to Council the Treasury Management Policies and Practices 2023/24.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF34-22/VT/AC
20 MARCH 2023

BACKGROUND PAPERS:

CIPFA Treasury Management in the Public Services – Code of Practice and Cross – Sectoral Guidance Notes 2021 Edition

Treasury Management Policies and Practices

2023/24

Key Officer Contacts for the Treasury Management Practices

Name	Job Title
Jane Pearson	Director of Resources
Lawson Oddie	Head of Financial Services
Valerie Taylor	Senior Accountant

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Introduction

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

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

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

Local authorities are not constrained by law in the types of investments they can make or the investment instruments they may use. However, they are in practice constrained by the MHCLG (now the DLUHC) guidance 'Statutory Guidance on Local Government Investments' (MHCLG 2018), which stress the prudent investment strategy of security, liquidity and yield. This means that first and foremost local authorities must ensure the security of their principal sum invested. i.e. ensure that they get back their full investment. Then they should ensure that they have the liquidity they need, i.e. that they have funds available when needed, and so should consider the length of an investment. Only when these two are satisfied should the yield or return on the investment be considered.

Under the Local Government Act 2003 and also the Local Authorities (Capital Finance and Accounting) Regulations 2003, the Council is required to have regard to the CIPFA Treasury Management Code of Practice (2021) (The Code) and the associated guidance.

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

Key Principles

The CIPFA Treasury Management Code of Practice (2021) identifies three key principles. In framing these three principles, or recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money.

It is CIPFA's view that throughout the public services the priority for treasury management is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

KEY PRINCIPLE 1:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

KEY PRINCIPLE 2:

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instrument for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

KEY PRINCIPLE 3:

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Treasury Management Clauses

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

1. Ribble Valley Borough Council will create and maintain, as the cornerstones for effective treasury and investment management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMPs), setting out the manner in which the council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
 - investment management practices (IMPs) for investments that are not for treasury management purposes.

The context of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6,7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this council. Such amendment will not result in Ribble Valley Borough council materially deviating from the Code's key principles.

2. The Policy and Finance Committee of Ribble Valley Borough Council will receive reports on its treasury and investment 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 and IMPs.
3. Ribble Valley Borough Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Finance Committee, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the council's policy statement, TMPs and IMPs, and CIPFA's *Standard of Professional Practice on Treasury Management*.
4. Ribble Valley Borough Council nominates the Policy and Finance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

This Council defines its treasury management activities as:

The management of the organisation's borrowing, investments and cash flows, including 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.

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

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

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

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

Treasury Management Practices

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

TMP 1: Risk Management

General Statement

This authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

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

i) Credit and counterparty risk management

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

The council's credit and counterparty policies will set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the council's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

ii) Liquidity risk management

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

The council will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

iii) Interest rate risk management

This council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs or revenues in accordance with its treasury management policy and strategy and in accordance with *TMP 6 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.

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

iv) Exchange rate risk management

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

v) Inflation risk management

The council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

vi) Refinancing risk management

This council will ensure that its borrowing and other long-term liabilities 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.

vii) Legal and regulatory risk management

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

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

viii) Operational risk, including fraud, error and corruption

This council will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

ix) Price risk management

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

TMP 2: Performance measurement

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

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

TMP 3: Decision-making and analysis

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

TMP 4: Approved Instruments, method and techniques

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

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

The council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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

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

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

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

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

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

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

TMP 6: Reporting requirements and management information arrangements

This council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the 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 council's treasury management policy statement and TMPs.

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

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

The Council will report the treasury management indicators and any other investment indicators required by regulation as detailed in their sector specific guidance notes.

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

TMP 7: Budgeting, accounting and audit arrangements

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

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

TMP 8: Cash and cash flow management

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

TMP 9: Money laundering

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

TMP10: Training and qualifications

This council recognises the importance of ensuring that all staff involved in the treasury management functions 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 responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

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

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

The present arrangements, including a knowledge and skills schedule, are detailed in the schedule to this document.

TMP11: Use of external providers

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

TMP12: Corporate governance

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

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

Investments that are not part of treasury management activity

The definition of treasury management within the council's Treasury Management Policy Statement includes all the investments of the council. This may include investments that are outside the purposes of normal treasury management and that may be managed elsewhere in the council. However, treasury managers should normally have an understanding of such investments and should support their management within the organisation. Public service organisations may have investments for various Purposes:

- **Investments for treasury management purposes** (or treasury management investments) are those investments that arise from the organisation's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business;
- **Investments for commercial purposes** (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services; and
- **Investments for service purposes** (or service investments) are taken or held primarily for the provision and for the purposes of delivery public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

Investment Management Practices (IMPs) for investments that are not part of the treasury management activity

The responsible officer will categorise any non-treasury management investments and plans into appropriate portfolios (or individual major investments) reflecting the different purposes, objectives and management arrangements of the investments and covering all the organisation's financial investments, together with any non-financial assets that are held primarily for financial return (such as commercial property).

For each such portfolio a schedule to this IMP sets out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

It is recognised that the risk appetite for these activities may differ from that for treasury management.

We do not currently have any investments that are held primarily for financial return.

Investments held for service purposes, such as property held for the provision of emergency accommodation, are recorded on the council's fixed asset register and are considered as part of the council's approved capital programme.

SCHEDULE A

TMP 1: Risk Management

CREDIT AND COUNTERPARTY RISK

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

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

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

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

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

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

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

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

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

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

LIQUIDITY RISK

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

Amounts of approved minimum cash balances and short-term investments

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

- **Standby Facilities:** Any funds held on call notices should not exceed 25% of the total amount invested at any one time and a maximum of £500,000.
- **Bank overdraft arrangements:** The council does not have an agreed overdraft facility and instead relies on the stringent cash flow projections.
- **Short-term investment facilities:** Surplus funds shall be temporarily invested via the money market at the best rate of interest available, in accordance with the minimisation of risk of the capital sum. In all investment matters the protection of the capital sum will be of paramount importance and will override the desire to obtain the highest interest rates.
- **Short-term borrowing facilities:** The facility is in place to borrow from other local authorities through approved broker services should any unexpected occurrence result in a temporary reduction to the council's short-term liquidity, however by managing our cash flow effectively such occurrences will be kept to a minimum.

INTEREST RATE RISK

Interest rate risk is 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. The Council will seek to minimise this risk by reviewing forecasts of interest rates. It will also determine appropriate limits and trigger points as set out in the council's Capital and Treasury Management Strategy. This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

EXCHANGE RATE RISK

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the council's finances, against which the Council has failed to protect itself adequately. The Council has a minimal exposure to exchange rate risk as it does not enter into loans or investments in foreign currency for treasury management purposes.

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

INFLATION RISK

Inflation risk, also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation. The Council mitigates against this risk as much as possible by monitoring the Bank of England's Monetary Policy Committee inflation reports and by limiting investments with counterparties to fixed interest rate agreements at terms below 365 days.

REFINANCING RISK

Refinancing risk is the risk that when maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time. The council maintains reliable records and forecasts of the terms and maturities of its borrowings, capital, project and partnership funding to allow it to plan the timing of, and successfully negotiate appropriate terms for, its refinancing, if necessary.

Debt/other capital financing maturity profiling, policies and practices

The total debt held with the Public Works Loans Board is summarised in the table below, showing the estimated debt maturity assuming no further borrowing is undertaken. The council has no current plans to refinance its debt.

Original Loan Amount £	Term	Interest Rate	Estimated Principal Outstanding at 31 March 2022 £	Year of Final Repayment
250,000	15 years	4.75% Fixed	200	2022/23
250,000	25 years	4.88% Fixed	105,000	2032/33
		Total PWLB	105,200	

Projected capital investment requirements

In accordance with the Prudential Code for Capital Finance in Local Authorities, the Director of Resources has prepared a ~~three~~ five-year plan for capital expenditure for the Council.

The use of borrowing to support the capital programme results in an average of ~~£431,200~~ £14,520 per year for the period ~~2022/23~~ 2023/24 to ~~2024/25~~ 2027/28. The nature of the assets where borrowing has been used is in line with recommendations from the council's Budget Working Group and as approved by Policy and Finance Committee i.e. in respect of land and buildings.

~~In light of the uncertainty regarding local government funding beyond 2022/23 and the impending fair funding review, Policy and Finance Committee recommended a three year Capital Programme to Full Council at their meeting in February 2022, and asked that due diligence work be undertaken on all new capital bids to enable further consideration over the summer once the impact of the pending key financial reforms are known.~~

A summary of the approved capital programme and its financing for the ~~three~~ five year programme are provided in the table below.

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	TOTAL £
Disabled Facility Grants	-393,000	-393,000	-393,000	-393,000	-393,000	-1,965,000
Section 106 Monies	-2,139,420	0	0	0	0	-2,139,420
VAT Shelter Earmarked Reserve	-150,000	-100,000	-100,000	-100,000	-100,000	-550,000
Capital Earmarked Reserve	-449,252	-15,000	0	0	0	-464,252
New Homes bonus Earmarked Reserve	-248,009	-62,860	0	0	0	-310,869
ICT Renewals Earmarked Reserve	-24,241	-63,400	0	0	0	-87,641

	2023/24	2024/25	2025/26	2026/27	2027/28	TOTAL
	£	£	£	£	£	£
Vehicle Renewals Earmarked Reserve	-51,030	0	0	0	0	-51,030
Fleming VAT Earmarked Reserve	-5,451	0	0	0	0	-5,451
Business Rates Growth Earmarked Reserve	-1,071,959	-500,000	-500,000	-500,000	-500,000	-3,071,959
Usable Capital Receipts	-27,548	-20,220	-432,240	-385,280	-542,900	-1,408,188
Borrowing	-72,600	0	0	0	0	-72,600
Total Resources	-4,632,510	-1,154,480	-1,425,240	-1,378,280	-1,535,900	-10,126,410
Total of Approved Capital Programme	4,632,510	1,154,480	1,425,240	1,378,280	1,535,900	10,126,410

Policy concerning limits on affordability and revenue consequences of capital financing

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

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

LEGAL AND REGULATORY RISK

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

References to relevant statutes and regulations

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

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

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

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

- Investing: Local Government Act 2003, section 12

- Borrowing: Local Government Act 2003, section 1

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

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

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

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

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

FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT RISK

Fraud, error and corruption risk is the risk that the Council 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. The Council will therefore:-

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

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

Authority

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

Procedures

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

Investment and borrowing transactions

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

records for the transaction. Any discrepancies are immediately reported to the broker or counterparty for resolution.

Regularity and security

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

Checks

- A bank reconciliation is carried out independently of officers involved directly in the treasury management function on a monthly basis from the bank statement to the financial ledger.
- A debt charge/investment income listing is monitored quarterly against the budget for interest earnings and debt costs.

Calculations

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

Officer compliance with the Treasury Management Policies and Practices is independently checked periodically by the Internal Audit function.

Emergency and contingency planning arrangements

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

Insurance cover details

The Authority has a Fidelity Guarantee policy with Zurich Municipal Insurance. This provides cover to the value of £10,000,000. This covers the loss of cash by fraud, or the dishonesty of five designated officers dealing with the treasury management function. All other officers are covered to the value of £250,000.

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

PRICE RISK

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

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

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

SCHEDULE B

TMP 2: Performance measurement

Evaluation and review of treasury management decisions

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

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

Policy concerning methods for testing value for money in treasury management

Banking services

Banking services are reviewed on a regular basis to ensure that the council is receiving value for money.

Money-broking services

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

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

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

Benchmarks and calculation methodology with regard to risk and return

Debt management

The council currently has a comparatively low level of debt.

Investment

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

Treasury Management Risks

Risks relating to Treasury Management activities are recorded and reviewed on the council's risk register.

SCHEDULE C

TMP 3: Decision-making and analysis

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

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

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

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

Records to be kept

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

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

Processes to be pursued

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

Issues to be addressed.

In respect of every decision made the Council will:

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

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

- Evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs (eg by use of a liability benchmark) in order to avoid borrowing too much, too little, too long or too short
- Evaluate the economic and market factors that might influence the manner and timing of any funding decision
- Consider the merits and demerits of alternative forms of funding, including options such as funding from revenue and leasing and private partnerships
- Consider the alternative interest rate bases available, the most appropriate periods to borrow and repayment profiles to use
- Consider the on-going revenue liabilities created, and the implications for the council's future plans and budgets.

In respect of investment decisions, the Council will:

- Consider the risks to capital and returns and the implications for the council's future plans and budgets
- Consider the need for borrowing (both the amount and period): if the investment amount or period is not necessary for treasury management liquidity purposes, the objectives and justification for the investment need to be set out clearly
- Consider the optimum period, in the light of cash flow availability and prevailing market conditions
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

In respect of decisions regarding derivatives, the Council will:

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

SCHEDULE D

TMP 4: Approved Instruments, methods and techniques

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

Specified investments

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

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

The monitoring of investment counterparties

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

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

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

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

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

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

The approved organisations for investment are:

Banks

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

Building Societies

- Coventry Building Society *
- Leeds Building Society *
- Nationwide Building Society *
- Principality Building Society *
- Skipton Building Society *
- Yorkshire Building Society *

Other

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

Key Treasury Investment Counterparty Limits

* Maturity limit for each counter party 365days

* Maximum limit per institution £1.75m

** Maximum limit per institution £5.0m

*** Maximum limit per institution £2.5m

<u>Approved Investment Counterparties</u>	<u>Time Limit</u>	<u>Cash Limit</u>	<u>Sector Limit</u>
<u>Banks</u>	<u>365 days</u>	<u>£5m</u>	<u>Unlimited</u>
<u>Building Societies</u>	<u>365 days</u>	<u>£3m</u>	<u>£5m in total</u>
<u>Government Debt Management Office</u>	<u>365 days</u>	<u>Unlimited</u>	<u>Unlimited</u>
<u>Other Local authorities in the UK</u>	<u>365 days</u>	<u>£5m</u>	<u>Unlimited</u>
<u>Police and Crime Commissioners, Fire and Rescue Services and Transport Authorities</u>	<u>365 days</u>	<u>£5m</u>	<u>Unlimited</u>

Policy and practices relating to environmental, social and governance (ESG) investment considerations

While ESG policies are emerging as important considerations for investors this is still a developing area. As such there is not currently an industry standard available against which organisations on the council’s approved counter party list can be reliably and comparatively measured.

It is the council’s policy that environmental considerations and green credentials are appraised as part of all bids for capital funding as part of the council’s capital programme. This would include, for example, any future bid for funding in respect of investments that are proposed

primarily for the provision and delivery of public services (examples within the public sector being housing and regeneration).

Non-Specified Investments

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

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

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

Markets in Financial Instruments Directive (MiFiD) II

The Markets in Financial Instruments Directive (MiFiD) regime uses client 'categories' to recognise that investors have different levels of experience, knowledge and expertise. Under the regime, investors will either be retail clients, professional clients or eligible counterparties (ECPs).

The implementation of MiFiD II meant that from January 2018 all local authorities would automatically be classified as retail clients, with the option to 'opt up' to professional client status. Where professional status is required in order to deal in particular financial instruments, UK firms must first ensure that local authority clients meet a number of quantitative tests to demonstrate an appropriate level of experience, knowledge and expertise. As MiFiD II does not cover fixed term deposits, the council does not currently require professional client status.

Policy on the Use of Financial Derivatives

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

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

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

Use of External Fund Managers

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

SCHEDULE E

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

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

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

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

Delegated Powers

All matters relating to treasury management shall be determined by Policy and Finance Committee.

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

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

All money in the hands of the Council shall be aggregated for the purpose of treasury management and shall be under the control of the Director of Resources.

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

Responsibilities

The Director of Resources will:

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

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

The Head of Financial Services will:

- Ensure that the Council's treasury management strategy is reviewed annually
- Liaise with the Director of Resources and treasury management staff on treasury management decisions
- Manage the overall treasury function
- Ensure that the treasury management systems document is reviewed at least annually
- Ensure that the organisation of the treasury management function is adequate to meet current requirements
- Ensure that staff involved in treasury management are adequately trained
- Ensure that all treasury staff are aware of the Bank of England's UK Money Markets Code
- Supervise the treasury management staff
- Ensure appropriate segregation of duties
- Ensure elected members receive appropriate reports
- Act as authorised signatory of the Council.

The Senior Accountant will:

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

The Accounting Technician will:

- Maintain cover in the absence of a senior accountant, under the supervision of the Head of Financial Services.

Internal Audit will:

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

Policy and Finance Committee will:

- Approve local borrowing limits
- Approve the adopted clauses, treasury management policy statement and treasury management practices and any amendments.
- Receive an annual report on the treasury management strategy before the start of the financial year and refer to full council as a 'starred' item.
- Receive an annual report by 30 September of the following year on the treasury management activity for the preceding year and refer to full council as a 'starred' item.
- Approve the selection of external service providers and agreeing terms of appointment
- Receive and review regular monitoring reports and acting on recommendations

- Receive and review borrowing and investment decisions
- Approve the division of responsibilities

Absence cover

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

Dealing limits

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

Approved brokers

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

Tullet Prebon (Europe) Ltd

BGC Brokers L.P (formally Sterling International Brokers)

SCHEDULE F

TMP 6: Reporting requirements and management information arrangements

Annual review of the treasury management policies and practices

This document will be reviewed annually and reported to Policy and Finance Committee before the commencement of each financial year

Annual Capital and Treasury Management Strategy

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

Prudential indicators

Local Authorities in England and Wales are required by the Local Government Act 2003 to have regard to CIPFA's Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. Accordingly, the following treasury management prudential indicators are set in advance of the financial year:

- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt
- Upper and lower limits for the maturity structure of borrowing
- Prudential limits for principal sums invested for longer than 364 days

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

Annual report on treasury management activity

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

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

Quarterly review of treasury management activity

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

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

Management information reports

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

SCHEDULE G

TMP 7: Budgeting, accounting and audit arrangements

Statutory/regulatory requirements

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

Accounting practices and standards

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

List of information requirements of external auditors

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

Investment income, other gains and losses and financial costs

- Schedule of calculations to support each element of investment/ interest revenue
- An analysis of interest paid and received, identifying bank, lease and other, with explanations for movements compared to prior year and budget
- Schedule and calculations to support each element of finance costs

Investments

- Details of investments held including nature and terms of investment
- Consideration of any impairment of the investments held

Long-term borrowing and other liabilities

- Details of any liabilities payable between 1 and 2 years, 2 to 5 years and greater than 5 years

Financial instruments

- Reconciliation of financial instruments to relevant balance sheet entries
- Evidence of review of closing balance sheet to identify any financial instruments as defined by CIPFA/ LASSAC's Code of Accounting Practice
- Evidence to support any fair value calculations that have been incorporated into the accounts

SCHEDULE H

TMP 8: Cash and cash flow management

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

Cash Flow Forecast Procedure

A cash flow working spreadsheet is prepared in advance of the financial year ahead. This spreadsheet details estimated cash inflows and outflows that we expect to occur throughout the year on a daily basis. Cash flow projections from direct credit and direct debit payments can be reliably estimated in advance and entered to the spreadsheet:

Direct credit payments

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

Direct debit payments

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

The Council has two main bank accounts which are currently held by the branch office of the HSBC Bank plc., 8 Castle Gate, Clitheroe, BB7 1BB. They are known as the:

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

These accounts are accessed online each morning in order to:

- ensure that anticipated cash flows have taken place as expected;
- calculate a daily balance at bank so that any surplus cash balances can be invested in accordance with the treasury management approved policies and practices; and to
- monitor the liquidity of the council on an ongoing basis, ensuring that cash is available when required to meet our commitments

Payment scheduling and agreed terms of trade creditors

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

Direct debit payments

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

- Council tax refunds: *every Wednesday*

Direct credit receipts

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

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

Banking of funds

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

SCHEDULE I

TMP 9: Money laundering

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property

Procedures for establishing identity/authenticity of lenders

The council does not accept loans from individuals.

Methodology for identifying sources of deposits

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be authorised deposit takers under the Financial Services and Markets Act 2000 unless specifically exempt from authorisation. The financial services register of the Financial Conduct Authority can be accessed through their website on **www.fca.org.uk**.

All transactions will be carried out by CHAPS for making deposits or repaying short-term loans. Repayments to the Public Works Loans Board for long-term debt is via a twice-yearly direct debit.

Proceeds of Crime Act 2002 (POCA)

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

The Money Laundering Regulations 2007

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

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

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

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

SCHEDULE J

TMP10: Training and qualifications

Treasury management officers

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

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

Details of approved training courses

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

Training and qualifications of treasury staff

Qualifications

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

Knowledge and Skills Schedule

The appropriate level of skills, knowledge, qualifications and experience commensurate with officer responsibilities contained in schedule E of this document is set out in job descriptions and person specifications for each position on the council's establishment.

Officers qualified with the Chartered Institute of Professional Accountancy (CIPFA) are required to continue to develop and maintain knowledge and skills under the institutes Continuing Professional Development (CPD) scheme.

The council's internal Performance Appraisal scheme is a formalised process that requires documentation of any identified training and development needs. These are categorised into a training schedule that is ranked in terms of high, medium and low priority, and that includes a plan for the method of training that is to be provided, along with ~~and~~ a target date for completion.

Training of those charged with governance

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

SCHEDULE K

TMP11: Use of external providers

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

Bankers

Name of supplier of service is HSBC Bank plc.

Money-broking services

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

Consultants'/advisers' services

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

Procedures and frequency for tendering services

Banking services

Banking services are reviewed on a regular basis to ensure that the council is receiving value for money.

SCHEDULE L

TMP12: Corporate governance

List of documents to be made available for public inspection

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

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

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

ANNEX 1

Treasury Management and Systems Document

Introduction

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

Cash flow record

A cash flow working spreadsheet is prepared in advance of the financial year ahead. This spreadsheet details the main estimated cash inflows and outflows that we expect to occur throughout the year on a daily basis.

The Council has two bank accounts which are currently held by the branch office of the HSBC Bank plc., 8 Castle Gate, Clitheroe BB7 1BB. They are known as:

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

These accounts are accessed online each morning in order to:

- ensure that anticipated cash flows have taken place as expected;
- calculate a daily balance at bank so that any surplus cash balances can be invested in accordance with the treasury management approved policies and practices; and to
- monitor the liquidity of the council on an ongoing basis, ensuring that cash is available when required to meet our commitments

Direct Credit Receipts

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

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

Direct Debit Payments

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

Investments

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

Investment decisions are to be made with regard to the security of the principal sums being invested and to the liquidity of the council before considering the yield.

Funds will therefore only be placed with authorised counterparties and with care being taken not to exceed the authorised limits per institution for the total sums invested.

The term of the investment is not to exceed 365 days and will be decided upon after considering future cash flows to ensure that funds are available to meet the council's short-term commitments.

Once the above appraisals have been completed contact can then be made with available counterparties either directly or through use of one of the council's authorised brokers to secure the most favourable interest rates available for the investment amount and term.

Contact details for treasury departments and approved brokers are available in the cash flow file.

Investments are not to be finalised without prior approval from the Head of Financial Services or the Director of Resources.

All supporting documentation is attached to a temporary investment sheet where details of the counter parties to whom our monies are being lent are recorded

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

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

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

The Head of Financial Services and the Director of Resources (or in their absence the Chief Executive), needs to sign the authorisation sheet obtained from the HSBC.net system.

A "direct banking transaction" creditor voucher should be prepared to charge the investment amount to the general ledger fund.

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

Investment with the HSBC bank money market

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

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

Repayment of investments

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

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

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

Temporary loans

If a deficit cash balance is estimated on the cleared balance sheet it may be necessary to arrange for a temporary loan. This will depend on the deficit and the charges made by HSBC on the deficit as the council no longer has an overdraft facility. An agreed maximum limit for short-term borrowing is set annually.

Arranging a temporary loan

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

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

Repaying a temporary loan

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

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

A confirmation letter should be sent direct to the counter parties indicating how interest due was calculated, and a Direct Payment Transaction sheet completed, that separates out principal and interest elements of the repayment to ensure the amounts are charged to the relevant general ledger account.

Long-Term borrowing

The council's Borrowing and Debt Strategy is set out within the council's Capital and Treasury Management Strategy. The strategy is reviewed by Policy and Finance Committee in advance of the financial year prior to approval by Full Council.

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

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

- Are below money market rates;

- Loans are generally available for longer periods; and
- PWLB commission rates are minimal.

PWLB borrowing

Application for Loans

The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury. The facility provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury. This borrowing is mainly for capital projects.

Lending arrangements are subject to change and are made in accordance with the operational circular in force at the time of the loan application.

At the time of reviewing these policies and practices the arrangement in force are set out in circular 163, which is available to download from the DMO's website:

https://www.dmo.gov.uk/media/17764/dmo_operational_circular_163_oct21_clean.pdf
[Lending Arrangements \(dmo.gov.uk\)](https://www.dmo.gov.uk)

All loans and investments are approved by the Director of Resources or the Head of Financial Services, or in the absence of both, the Chief Executive.

The DMO will accept loan applications only from staff duly nominated by the authority's Chief Finance Officer and any change must be submitted on the Local Authority Authorisation Form which is available from the DMO website:

https://www.dmo.gov.uk/dmo_static_reports/Local%20Authority%20Authorisation%20Form.pdf

Where nominations are to be refreshed, a new, complete list of names is required. Current authorisations are detailed below:

Designation	Authorised to confirm changes	Authorised to Transact
Chief Executive	YES	YES
Director of Resources	YES	YES
Head of Financial Services	YES	YES
Senior Accountant	NO	YES
Accounting Technician	NO	YES

Reconciliation

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