

## **Treasury Management Policy Statement and Treasury Management Practices February 2024**

### **1.0 Introduction**

- 1.1 In December 2021 CIPFA issued a revised Code of Practice on Treasury Management with strengthened requirements for skills and training, and for investments which are not specifically for treasury management purposes. It is a requirement of the Code that the Council should formally adopt the Code.
- 1.2 The Code seeks to satisfy nine main purposes:
1. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, thereby adding to their credibility in the public eye.
  2. To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.
  3. To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.
  4. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
  5. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and to maintain and develop the professional competence of both themselves and those they supervise.
  6. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
  7. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.
  8. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
  9. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.
- 1.3 The approved activities cover borrowing arrangements for funding capital expenditure, debt repayment and rescheduling, managing cash flow and investment of surplus balances, non-treasury management investments e.g. service and commercial investments and monitoring the underlying risks associated with the Authority's activities.

- 1.4 Arrangements made for the control and operation of bank accounts operated by schools come within this definition but day-to-day management of funds is the responsibility of the Head Teachers and the Governors under arrangements for the local management of schools. Banking arrangements for schools with their own cheque accounts are closely monitored by the Director of Finance.
- 1.5 Management of the West Midlands Pension Fund is not included as part of Wolverhampton Council's treasury management activities. The West Midlands Pension Fund has adopted its own Treasury Management Policy which is overseen by its in-house Finance Team.
- 1.6 Subject to the above, the Council's cash is aggregated for the purposes of treasury management and is under the control of the Director of Finance in accordance with Section 151 of the Local Government Act 1972. The executive control and administration of financial policy is under the direction of the Cabinet (Resources) Panel.
- 1.7 All external investments of surplus internal balances (investments for treasury management purposes) are restricted to authorised investments in accordance with the Local Authorities (Capital Finance and Approved Investments) (Amendment) Regulations 1996. The Director of Finance is responsible for making any investments, subject to the guidelines agreed by the Council or subsequently amended by the Cabinet (Resources) Panel.
- 1.8 The new Code introduces definitions for non-treasury management investments:
- Investments for commercial purposes (commercial investments)** – these are taken or held primarily for financial return and not linked to treasury management activity or directly part of delivering services.
- This includes non-financial assets such as commercial property, where they are held primarily for financial return.
  - This type of investment will usually constitute capital expenditure.
- Investments for service purposes (service investments)** – these are taken or held primarily and for the purposes of delivering public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.
- Service investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.
  - Service investments will normally constitute capital expenditure and it may be appropriate to borrow to finance these investments.

## 2.0 Adoption of the code

2.1 The revised 2021 Code identifies three key principles:

### Key Principle 1

The Council puts in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

### Key Principle 2

That these policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and the responsibility for these lie clearly within the Council. The Council's appetite for risk should form part of its annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing treasury management funds.

### Key Principle 3

To acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools to employ in support of the Council's business and service objectives; and that within the context of effective risk management, its treasury management policies and practices reflect this.

2.2 In order to achieve the above, the Council will adopt the following four clauses:

1. The 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 organisation 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 content 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 the Council. Such amendments will not result in the Council materially deviating from the TM Code's key principles.

2. Full 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 the TMPs and IMPs.

3. Full Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet (Resources) Panel, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement, TMPs and IMPs and if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. The Council nominates Resources and Equality Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **3.0 Treasury Management Policy Statement**

3.1 The Council's treasury management policy statement defines the policies and objectives of its treasury management activities, as follows:

1. Treasury management activities are defined as:

"The management of the Council'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."

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### **4.0 Treasury Management Practices (TMPs) – Main principles**

4.1 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. The main principles are below with more detailed explanations in the attached schedules; these follow the TM Code and have been suitably amended where necessary to reflect the Council's particular needs and circumstances.

#### **4.2 TMP 1 – Risk management**

The 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 robust due diligence procedures cover all external investment.

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

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Schedule 1 to this document.

### **[1] Credit and counterparty risk management**

The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and it will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the schedule to this document.

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 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.

### **[2] Liquidity risk management**

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable it at all times to have the level of funds available to it that 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 Council.

### **[3] Interest rate risk management**

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues, in accordance with its treasury management policy and strategy and in accordance with TMP6 Reporting requirements and management information arrangements.

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

be subject to the consideration and, if required, approval of any policy or budgetary implications.

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.

#### **[4] 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.

#### **[5] 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.

#### **[6] Refinancing risk management**

The 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 is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the Council as can reasonably be achieved in 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.

#### **[7] Legal and regulatory risk management**

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

The 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 manage the risk of these impacting adversely on the Council.

#### **[8] Operational risk, including fraud, error and corruption**

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

## **[9] Price risk management**

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

### **4.3 TMP 2 – Performance measurement**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, 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 Schedule 2 to this document. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

### **4.4 TMP 3 – Decision making and analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in Schedule 3 to this document.

### **4.5 TMP 4 – Approved instruments, methods and techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 4 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 Council 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 Schedule 4 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.

#### 4.6 **TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance 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 Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Director of Finance 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 Schedule 5 to this document.

The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in Schedule 5 to this document.

The delegations to the Director of Finance in respect of treasury management are set out in Schedule 5 to this document. The Director of Finance 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.

#### 4.7 **TMP 6 – Reporting requirements and management information arrangements**

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

As a minimum:

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, the effects of the decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

Cabinet (Resources) Panel will receive regular monitoring reports on treasury management activities and risks including the treasury management indicators and any other investment indicators required by regulation as detailed in their sector-specific guidance notes.

Resources and Equality Scrutiny Panel will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are detailed in Schedule 6 to this document.

#### **4.8 TMP 7 – Budgeting, accounting and audit arrangements**

The Director of Finance will prepare, and 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 TMP 1 Risk management, TMP 2 Performance measurement, and TMP 4 Approved instruments, methods and techniques. The Director of Finance 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.

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

#### **4.9 TMP 8 – Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance 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 Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] Liquidity risk management, and for the purpose of identifying future borrowing needs. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 8 of this document.

#### **4.10 TMP 9 – Money laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting

suspensions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in Schedule 9 to this document.

#### **4.11 TMP 10 – Training and qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance 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 Director of Finance will ensure that councillors tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

The present arrangements are detailed in Schedule 10 to this document.

#### **4.12 TMP 11 – Use of external service providers**

The 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 service providers, it will ensure it does so for reasons that have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the Director of Finance, and details of the current arrangements are set out in Schedule 11 to this document.

#### **4.13 TMP 12 – Corporate governance**

The 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 treasury management activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the TM Code.

This, together with the other arrangements detailed in Schedule 12 to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **5.0 Investments that are not part of treasury management activity**

5.1 The definition of treasury management in section 3 above 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 organisation. Investments may be held for various purposes as detailed below.

## **5.2 Investments for treasury management purposes (or treasury management investments)**

These are investments that arise from the Council'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.

- Treasury investments may include an allowance for a reasonable level of short-term investments to provide access to liquidity.
- This may also include the investment of borrowing proceeds where it has been prudent for the Council to borrow in advance of the need for cash, e.g. in order to reduce financing and interest rate risks.
- Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- Treasury management investments should always be on commercial terms and will rarely constitute capital expenditure for the Council.
- For those organisations with long-term surplus cash, this category may include long-term investments such as equities, bonds and property, whether accessed through a fund or directly, but unless there is a link to cash flow management or treasury risk management activity, it is likely that such investments would be for commercial purposes, i.e. primarily for financial return.

## **5.3 Investments for commercial purposes (or commercial investments)**

These are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

- This includes non-financial assets such as commercial property, where they are held primarily for financial return.
- Investments of this type will usually constitute capital expenditure.
- 'Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are

additional investments voluntarily taken primarily to generate net financial return or profit.

The Council will not undertake any investments of this nature.

#### **5.4 Investments for service purposes (or service investments)**

These are taken or held primarily for the provision and for the purposes of delivering public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

- Service investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.
- Service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

#### **5.5 TM Code requirements**

For the purposes of reporting under the TM Code, any investments that are not taken or held for treasury management purposes described above should be clearly identified and reported in appropriate categories reflecting their service or commercial purposes. For each category, the various purposes, objectives and management arrangements of the investments should be described. The level of risk and arrangements for managing it should be set out.

Treasury management policy statements, treasury and investment strategies, half-year reports and year-end reports will address all the Council's financial investments, including those that are not treasury management investments, as well as any non-financial assets held primarily for financial return (such as commercial property). The Council can choose to create a separate investment strategy for its service and commercial investments in order to maintain their separateness from treasury management investments.

The Council will apply an appropriate investment risk management approach across all non-treasury management investments (taking account of any differing purposes and objectives of individual portfolios). The investment management practices below set out a framework to be applied to all non-treasury investments.

Where, in addition to treasury management investment activity, the Council makes investments for service or commercial purposes including property or other financial assets primarily for financial return, the risks associated with investment should be proportionate to the Council's financial capacity – ie that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. The Council will ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

The Council must not borrow to invest for the primary purpose of financial return.

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

The Director of Finance 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 Council'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.

## Treasury management schedules

### Schedule 1 : TMP 1 – Risk management

#### 1.1 Credit and counterparty risk

This is the risk of failure by a counterparty 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.

#### Creditworthiness policy

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The table below details Link's recommendations of bands and durations along with the more prudent parameters that the Council will apply:

	Link	Wolverhampton
Yellow (is for UK Government debt or equivalent, money market funds and collateralised deposits where the collateral is UK Government debt)	5 years	-
Dark Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.25)	5 years	-
Light Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.5)	5 years	-
Purple	2 years	1 year
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year	3 months
Orange	1 year	6 months
Red	6 months	3 months
Green	100 days	50 days
No Colour	Not to be used	Not to be used

This list will be reviewed on any changes to the methodology used by Link and the Council may revert back to using Link's recommended durations if or when investment

balances are at higher levels and longer deposits are possible without significantly increased risk to liquidity.

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1+ and a Long Term rating AA-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored each time the Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. A severe downgrade may prompt the Director of Finance to instruct treasury management employees to take steps to withdraw any investment considered to be at risk. The potential penalties for such an action would need to be assessed.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this bought-in service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

### **Country limits**

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

### **Approved counterparties**

The complete list of approved counterparties is included in the Treasury Management Strategy and in each quarterly monitoring report. The Finance Manager will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection.

### **Investment Strategy**

The Council will have regard to the DLUHC's Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2021 revised CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("TM Code").

This Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heading Specified investments and Non-specified investments. These are listed below:

**Specified investments** - all investments listed below must be sterling-denominated.

Investment	Minimum 'High' Credit Criteria	Maximum Period
Debt Management Agency Deposit Facility	Government backed	6 months
Money Market Funds CNAV > LVNAV	AAAmmf / Aaa-mf	Period of investment may not be determined at outset but will be subject to cash flow and liquidity
Term deposits - UK Government	Government backed	12 months
Term deposits - Local Authorities	High Security	12 months
Term deposits - Banks & Building Societies	Short-term F1+, Long-term AA-	12 months

**Non-specified investments** – a maximum of 50% of total investments with a cap of £35.0 million will be held in aggregate

	Minimum Credit Criteria	Max Limit	Max Maturity Period
Term deposits - UK Government (with maturities in excess of 1 year)	Government Backed	£10.0 million	5 years
Term deposits - Local Authorities (with maturities in excess of 1 year)	High Security	£10.0 million per LA	5 years
Term deposits - Banks & Building Societies (with maturities in excess of 1 year)	Short-term F1+ Long-term AA-	£10.0 million per Bank	5 years

### Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be thoroughly reviewed before they are undertaken.

### Policy on environmental, social and governance (ESG) considerations

The Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The three rating agencies, Fitch, Moody's and Standard & Poor's are all signatories of this statement, and the Council uses ratings from these organisations to support its assessment of suitable counterparties.

For short term investments with counterparties, the Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate



additional ESG related metrics and assessment processes that it could incorporate into its investment process, as this new area develops, and will provide updates accordingly.

## **1.2 Liquidity risk**

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

### **Cash Balances**

Cash balances are derived from reserves, surpluses, provisions and any capital receipts held pending future use. These are invested externally with approved institutions. The Treasury Management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. The aim is to leave approximately £200,000 balance in the account, wherever possible, to cover any unforeseen payments, that may need to be urgently paid after treasury deals are completed in the morning. In addition, the Council should aim to have a minimum of £10.0 million surplus cash in totality each day to enable sufficient liquidity. If it is forecast to fall below this level for three consecutive days, the Treasury Management team will notify the Director of Finance so liquidity levels can be addressed. Borrowing or lending shall be arranged in order to achieve these aims.

### **Investment of surplus funds**

After the aggregation of all internal balances, surplus funds will be invested externally to earn interest and returned to the Council in order to meet projected future shortfalls in cash flow.

The Council's aggregate daily internal balances can vary quite markedly from day-to-day. Active cash flow management is essential to ensure that sufficient cash balances are available to meet commitments on pay days and creditor and other payment days.

### **Standby facilities**

At the end of each financial day any unexpected surplus funds are automatically transferred via a banking sweep to the Business Reserve Account which is available from the Council's banking provider. The balance on this account is instantly accessible if any of the group of core main bank accounts become overdrawn.

### **Temporary loans (maximum of 364 days)**

Temporary loans can be obtained within the borrowing limits to provide short term finance or to match any cash flow shortfall pending receipt of other revenues or longer term loans.

### **Banking facilities and limits**

An overdraft facility is provided on a net balance and on the aggregate of the core main account balances.

As some of the accounts may be in debit whilst others may be in credit, the net balance of each account will be maintained within the net limit. The aggregate of all balances will be maintained within the gross limit.

Net Limit: £500,000  
Gross limit: £9,000,000

Core main bank accounts:

- WCC Current Account
- WCC Automated Income Account
- WCC Payments Account
- WCC Local Taxes Account

Overdraft pricing is based on base rate + 1% with an annual fee of £2,500.

There is an additional group of Imprest bank accounts whose balances are pooled for interest purposes, these do not have an authorised overdraft facility.

Gross limit: £1,000,000

If an individual account does go overdrawn, the interest charged is base rate + 3%.

Bankers' Automated Clearing Services (BACS) - the following service credit limits are in place:

993695	Payroll	£25,000,000
972860	Payments	£20,000,000
971926	Council Tax	£1,250,000
920046	NNDR	£2,500,000
973636	Housing Benefit	£4,000,000
973531	Electoral	£150,000

Clearing House Automated Payments System (CHAPS) - CHAPS are able to be made when insufficient funds are held on the bank balance.

The bank will make payment in anticipation of receiving covering funds by the end of the business day. This risk is called the intraday limit which is set at £40,000,000.

The bank reserves the right to refuse any payment in excess of this limit.

The bank may review the risk it is willing to take on this limit with the Council at its discretion.

These transactions are completed using online banking and are done in accordance with the Council's procedures.

### **Policy in terms of borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will



### **Details of approved exchange rate exposure limits for cash investments/debt**

It is Council policy to undertake transactions in pounds sterling only and therefore, the exposure to fluctuations in exchange rates is limited to grants or payments from a third party that may be received in a foreign currency. Accordingly, there are no approved exchange rate exposure limits.

### **Approved criteria for managing changes in exchange rate levels**

In respect of any sums received in a foreign currency, steps will be taken to convert to sterling as soon as practicable to minimise the risk. In respect of third party payments, the third party carries this risk.

### **Policies concerning the use of financial derivatives for exchange rate risk management**

Financial derivatives are not an approved instrument and will therefore not be used.

## **1.5 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 will keep under review inflation exposures and how these will impact on its treasury assets and liabilities comparable to assumptions in the MTF5.

## **1.6 Refinancing risk**

This is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancing's, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

### **Debt/other capital financing, maturity profiling, policies and practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

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

- the generation of cash savings at minimum risk
- to reduce the average interest rate
- to amend the maturity profile and/or the balance of volatility of the debt portfolio

Rescheduling will be reported to the Cabinet (Resources) Panel at the meeting immediately following its action.

### **Projected capital investment requirements**

The Director of Finance will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

In addition, the Director of Finance will draw up a capital strategy report which will give a longer-term view.

The definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

### **Policy concerning limits on affordability and revenue consequences of capital financing**

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 and housing rent levels.

It will also consider affordability in the longer term beyond this three year period and assess the risks and rewards of significant investments to ensure the long-term financial sustainability of the Council.

The Council will not undertake commercial investments, that is those held primarily for financial return.

The Council will always keep revenue implications of capital financing under review to ensure they continue to be affordable and sustainable in the context of the Medium Term Financial Strategy.

The Council will use the definitions provided in the Prudential Code for borrowing (88), capital expenditure (89), capital financing requirement (90), commercial property (91), debt (92), financing costs (93), investments (95), net revenue stream (96), other long term liabilities (97), treasury management (98) and transferred debt (99).

## **1.7 Legal and regulatory risk**

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

### **References to relevant statutes and regulations**

The Council's treasury management activities are prescribed by statute, in England the source of the Council's power is the Local Government Act 2003. The Council can borrow or invest for any purpose relevant to its functions, under any enactment, or "for the purpose of the prudent management of its financial affairs". The above requires the Council to have regard to the CIPFA 'Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes.'

In addition, investments are constrained by the statutory 'Guidance on Local Government Investments.'

Statutes:

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 – 13 November 2003
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary – 10 December 2003
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 – 8 March 2004
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 – 8 March 2004
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011

- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2021 no. 611 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2021

Guidance and codes of practice:

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners' latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005

- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities and Guidance Notes revised 2021
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority)
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

**Procedures for evidencing the organisations powers/authorities to counterparties**

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.

The Local Government Act 2003 states a lender to local authorities in England “shall not be bound to enquire whether a local authority has power to borrow money and shall not be prejudiced by the absence of any such power.”

The treasury management delegations to the Director of Finance (E1 and E10) can be found in the Council's Constitution using the following link:

[Part 3e - Delegations to the Director of Finance.pdf \(modern.gov.co.uk\)](#)

The list of authorised signatories for investing are:

<b>Position</b>
Director of Finance
Deputy Director of Finance
Finance Business Partner



The list of authorised signatories for borrowing are:

Position
Director of Finance
Deputy Director of Finance
Head of the Hub
Head of Revenue and Benefits

The above will be made available on request.

### **Required information on counterparties**

Lending shall only be made to counterparties on the Approved Lending List. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moody's and Standard & Poors.

### **Statement on the organisation's policy management of risks**

The Council will assess the risks that might materialise as a result of changes to Government policy including future legislative or regulatory changes and will provide regular updates to councillors on potential risks in quarterly monitoring reports.

#### **1.8 Operational risk, including fraud, error and corruption, and contingency management**

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

#### **Details of systems and procedures to be followed including internet services**

In all the services the Council undertakes, it is committed to acting at all times with integrity and in an open and honest manner.

The Council will not accept any level of fraud or corruption and will vigorously investigate all allegations of fraud or corruption.

The Council is committed to having in place procedures and systems so as to limit as far as possible the opportunities for fraudulent acts or enable their early detection, together with procedures to ensure such acts are promptly and thoroughly investigated. The Council will:

- 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.

The practices and procedures outlined in the Treasury Management Practices are designed to fully document all transactions and to clearly demonstrate that the highest standards have been adhered to.

### **Authority**

The Council's Constitution details the delegations of duties to the Director of Finance and further requirements relating to treasury management are detailed in Part 4i – Financial Procedure Rules.

All loan and investment deals must be undertaken by only authorised signatories detailed in paragraph 1.6 above.

TMP 5 – Organisation, clarity and segregation of responsibilities and dealing arrangements sets out the responsibilities of each role in respect of treasury management.

### **Procedures**

All electronic banking procedures detailed by Banking Services must be adhered to and complied with.

Procedures set by Banking Services for requesting CHAPS payments must be followed.

### **Investment and borrowing transactions**

A detailed register of all loans and investments is maintained by the treasury management team.

A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation. The exception being deals with Money Market Funds where staff are working flexibly and therefore, the deals will be called through by an authorised dealer.

Written confirmation is received and checked against the dealer's records for the transaction.

Any discrepancies are immediately reported to the S151/Deputy S151 Officer 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 S151/Deputy S151 Officer for resolution.

### **Regularity and security**

Lending is only made to institutions on the Approved List of Counterparties.

Records are maintained by Strategic Finance of when 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.

Brokers have a list of named officials authorised to agree deals.

There is a separation of duties in the section between Finance Officer/Finance Manager who propose investment decisions (based on the strategy in place and rates on offer) and the Finance Business Partner who authorises and places the deal.

The Council's bank holds a list of Council officials who are authorised signatories for banking transactions.

No member of the treasury management team is an authorised signatory.

Payments can only be authorised under the scheme of delegation and/or under delegated powers from the Section 151 Officer. A list of delegated signatories is agreed under bank mandate with the current bank contract provider.

There is adequate insurance cover for employees involved in loans management and accounting.

### **Checks**

The bank reconciliation is carried out monthly from the bank statement to the financial ledger.

The records are proved to the balance sheet ledger codes at the end of each month and at the financial year end.

A debt charge/investment income listing is produced every quarter and year end when a review is undertaken 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 against the amount calculated in the Council's records.

The treasury management team calculates the interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.

Average weighted capital loans fund interest rates and debt management expenses are calculated as required, with a minimum being quarterly for the monitoring reports, using information held.

### **Emergency and contingency planning arrangements**

The Council has a Business Continuity Plan for performing the cash flow as part of its service resilience. In the event of an emergency or other event which prevent this plan

being used, the bank account structure allows any balances at the end of the working day be transferred to a Business Reserve account to accrue interest.

### **Insurance cover details**

It is normal practice in the private and public sector for employing bodies to indemnify their employees. Employees are currently covered by a Finance and General Purposes Committee Resolution of 13 April 1987:

"That the Council shall indemnify in perpetuity all employees and former employees of the Council against all liability, professional or otherwise for negligence or negligent omission or breach of contractual or statutory duty arising out of the employee's employment with the Council and that such indemnity shall extend to any such liability arising out of the employee's engagement of duties undertaken by the Council on behalf of any other authority or body.

Provided that such indemnity shall not extend to any liability arising as a result of fraud, dishonesty or other criminal activity or of wilful misconduct, gross negligence or gross dereliction of duty on the part of the employee".

The indemnity will not apply if any employee, without the written authority of the Authority, admits liability or negotiates or attempts to negotiate a settlement of any claim falling within the scope of this Resolution.

The indemnity does not extend to loss or damage directly or indirectly caused by or arising from:

- Fraud, dishonesty or any other criminal act on the part of the employee;
- Actions outside his/her normal duties;
- Wilful misconduct, gross negligence or gross dereliction of duty, including liability in respect of surcharges made by the External Auditor.

Insurance cover for employees is as follows:

- Public and employers' liability
- Officers' indemnity (financial loss to third parties)
- Libel and slander
- Fidelity guarantee and special contingency for cheques
- Cash in transit
- Personal accident (assault)
- Travel cover on request for official journeys outside the U.K.

## **1.9 Price risk/Market value of investments**

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

**Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS, etc.)**

In the event that opportunities for making such investments appear to the Director of Finance to be in the Council's financial interests, a report will be submitted to the Cabinet (Resources) Panel setting out the costs, benefits and potential risks.

## **Schedule 2 : TMP 2 – Performance measurement**

### **2.1 Evaluation and review of treasury management decisions**

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

- the treasury management team will carry out ongoing reviews of its activities
- reviews will be undertaken with its treasury management consultants
- annual review after the end of the year is reported to full council
- quarterly reports to Cabinet (Resources) Panel
- comparative reviews with other local authorities
- strategic, scrutiny and efficiency value for money reviews

#### **Ongoing periodic reviews during the financial year**

The Director of Finance regularly reviews the actual activity against the Treasury Management Strategy Statement and cash flow forecasts. This includes monitoring debt including average rate, maturity profile and the Council's borrowing strategy; and investments including average rate, maturity profile and changes to the above from the previous review and against the Treasury Management Strategy (Annual Investment Strategy). The Council's credit rating methodology and current counterparty list is also reviewed regularly.

#### **Reviews with the Council's treasury management consultants**

The treasury management team holds reviews with the Council's treasury management consultants to review the performance of its investments and debt portfolios. The Council's borrowing strategy and counterparty risk strategy are also reviewed at these meetings, which are held periodically, usually to coincide with a specific need (e.g. the imminent need to borrow, or following a significant change in the market/economy). At least one review meeting is held during each financial year.

#### **Review reports on treasury management**

An Annual Treasury Report is submitted to the Council each year after the end of the financial year which reviews the performance of the debt/investment portfolios. This report covers the following:

- total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement
- borrowing strategy for the year compared to actual strategy
- whether or not a decision was made to defer borrowing or to borrow in advance
- comment on the level of internal borrowing and how it has changed during the year
- assumptions made about interest rates
- investment strategy for the year compared to actual strategy
- explanations for variance between original borrowing and investment strategies and actual

- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- the performance and return of all investments by type of investment, evaluated against the stated investment objectives
- the report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together with details of any remedial action taken. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem
- the report shall include details of any review of long term investments, held by the Council, which was undertaken in the year in accordance with the Annual Investment Strategy
- compliance with Prudential and Treasury Indicators
- any other relevant information

In addition, quarterly / half yearly reports will be submitted to Council each year to provide updates on the above.

### **Comparative reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios, (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data will be sourced from relevant professional bodies e.g. CIPFA.

## **2.2 Benchmarks and calculation methodology**

### **Debt management**

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

### **Investment**

Where applicable, the performance of investment earnings will be measured against the following benchmarks:

Bank of England Base Lending Rate; 7 day SONIA; 1 month SONIA; 3 month SONIA

## **2.3 Policy concerning methods for testing value for money in treasury management**

### **Frequency and processes of tendering**

These will be determined in accordance with the Council's Constitution.

### **Banking services**

Banking services will be re-tendered every five years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

### **Money-broking services**

Money market brokers are used for placing surplus internal funds with approved financial institutions on a short term basis as part of the Council's cash flow management. Surplus internal funds are invested in the money markets in accordance with the guidelines set out in Section 1.1. Money market brokers are also used to assist the Council in meeting any temporary borrowing requirements. The current panel of brokers used by the Council are as follows:

- ICAP (part of the TPICAP Group)
- Martin Brokers (UK) plc
- Tradition UK Limited
- Tullett Prebon (Europe) Limited

### **Consultants'/advisers' services**

The Council has appointed Link Group as its professional treasury management advisers.

### **Policy on external managers (other than relating to pension funds)**

The Council's current policy is not to appoint external investment fund managers. The reasons for this are:

- the estimated level of surplus funds likely to be available over the medium term can be adequately managed by the Director of Finance;
- In light of this appointment of external fund managers would not be cost effective.



## Schedule 3 : TMP 3 – Decision-making and analysis

### 3.1 Funding, borrowing, lending and new instruments/techniques

#### Records to be kept

The Director of Finance shall be the Council's registrar of stocks, bonds and mortgages and shall maintain records of all borrowings and investments of money by the Council. All records and documents shall be available for inspection by internal audit and the Council's external auditors. All borrowings and investments of money under the Council's control shall be made in the name of the Council.

#### Processes to be pursued

The Deputy Director of Finance shall document for the approval of the Director of Finance the systems, procedures and processes which deliver the approved Treasury Management Policies and Practices. The documentation will be kept up-to-date. The aim will be to provide a treasury management systems document which has day to day relevance and within which all treasury management staff are aware of their duties and responsibilities.

#### Issues to be addressed

In respect of every treasury management decision made, the Council will:

- above all be clear about the nature and extent of the risks to which the Council may become exposed;
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping;
- ensure that third parties 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:

- consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets to ensure that its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
- Less detailed evaluation will also be carried out over a longer period of years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term.
- Not borrow to invest primarily for financial return.
- Not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.

- Not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council
- Increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the Council and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- Ensure that treasury management decisions are made in accordance with good professional practice.

In respect of investment decisions, the Council will:

- consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;
- Ensure that any long term treasury investment is supported by a business case.

## **Schedule 4 : TMP 4 – Approved instruments, methods and techniques**

### **4.1 Approved activities of the treasury management operation**

- Borrowing
- Lending
- debt repayment and rescheduling
- consideration, approval and use of new financial instruments and treasury management techniques
- managing the underlying risk associated with the Council's capital financing and surplus funds activities
- managing cash flow
- banking activities
- leasing
- the use of external fund managers (other than in respect of the Pension Fund)

### **4.2 Approved instruments for investments**

In accordance with The Local Authorities (Capital Finance and Approved Investments) (Amendment) Regulations 1996, the instruments approved for investment and commonly used by local councils are:

- Gilts
- Treasury Bills
- Deposits with banks, building societies or local organisations (and certain other bodies) for up to 364 days
- Certificates of deposits with banks or building societies for up to 364 days
- Euro-Sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges
- Triple A rated money market funds
- Debt Management Account (run by DMO/PWLB)

### **4.3 Implementation of Markets in Financial Instruments Directive II (MIFID II) requirements**

Since 3 January 2018, UK public sector bodies have been defaulted to 'retail' status under the requirements of MIFID II. However, for each counterparty it is looking to transact with (e.g. financial institution, fund management operator, broker), there remains the option to opt up to 'professional' status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the Council has been opted to professional status. It should be noted some money market funds will deal with both retail and professional clients.

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for and date received. It also includes confirmations where there is an exemption from having to opt up to professional status for a regulated investment, e.g. to use a money market fund which will deal with retail clients. A summary is provided below.

### **Professional client status under MIFID II**

The following is a list of institutions where the Council has opted up to professional client status under MIFID II.

#### **Confirmed professional client status:**

##### Money Market Funds

- Federated Hermes (UK) LLP
- Invesco Global Asset Management Limited
- Aberdeen Liquidity Fund (LUX)

##### External treasury management advisors

- Link Group

##### Money-broking services

- ICAP (part of the TPICAP Group)
- Martin Brokers (UK) plc
- Tradition UK Limited
- Tullet Prebon (Europe) Limited

#### **Application outstanding:**

None.

#### **No requirement to opt up**

##### Money Market Funds

- Black Rock Institutional Sterling Liquidity Fund

#### **4.4 Approved techniques**

The following are approved techniques:

- Forward dealing up to 5 years
- A limit of £35.0 million for deposits over 1 year and up to 5 years.

The following may be used by organisations which are not local authorities:

- Swaps
- Caps
- Collars
- Options

The Council will not use any of the above techniques.

#### 4.5 **Approved methods and sources of raising capital finance**

Finance will only be raised in accordance with statute, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On balance sheet

- PWLB
- Municipal bond agency
- Local authorities
- Banks
- Pension funds
- Insurance companies
- UK Infrastructure Bank
- Finance Leases
- Market (long term)
- Market (temporary)
- Market (LOBOs)
- Stock issues
- Local Temporary
- Local Bonds
- Local authority bills
- Overdraft
- Negotiable Bonds
- Internal (capital receipts and revenue balances)
- Commercial Paper
- Medium Term Notes
- Deferred Purchase
- PFI / PPP

Other methods of financing

- Government and EC Capital Grants
- Lottery monies

Borrowing will only be done in Sterling. All forms of funding will be considered by the Director of Finance taking into consideration the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

All borrowing transactions entered into by the Director of Finance will be reported to the Cabinet (Resources) Panel.

**4.6 Investment limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

**4.7 Borrowing limits**

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

## **Schedule 5 : TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

### **5.1 Limits to responsibilities/discretion at Council and Cabinet (Resources) Panel**

#### **Council**

- Approving the annual report on treasury management policies, practices and activities.
- Approving the Treasury Management Strategy Statement/Annual Investment Strategy/MRP Policy, including a mid-year review and any other revisions/updates.
- Approving the Annual Treasury Report
- Approval of Treasury Management budgets

#### **Cabinet**

- Recommending the Annual Treasury Report to Council.

#### **Cabinet (Resources) Panel**

- Receiving and reviewing the quarterly Treasury Management Monitoring reports.
- Monitoring performance against budgets.
- Approval of the division of responsibilities.
- Receiving and reviewing external audit reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

#### **Resources and Equality Scrutiny Panel**

- Review the treasury management policy and procedures and make recommendations to Cabinet / Cabinet (Resources) Panel

### **5.2 Principles and practices concerning segregation of duties**

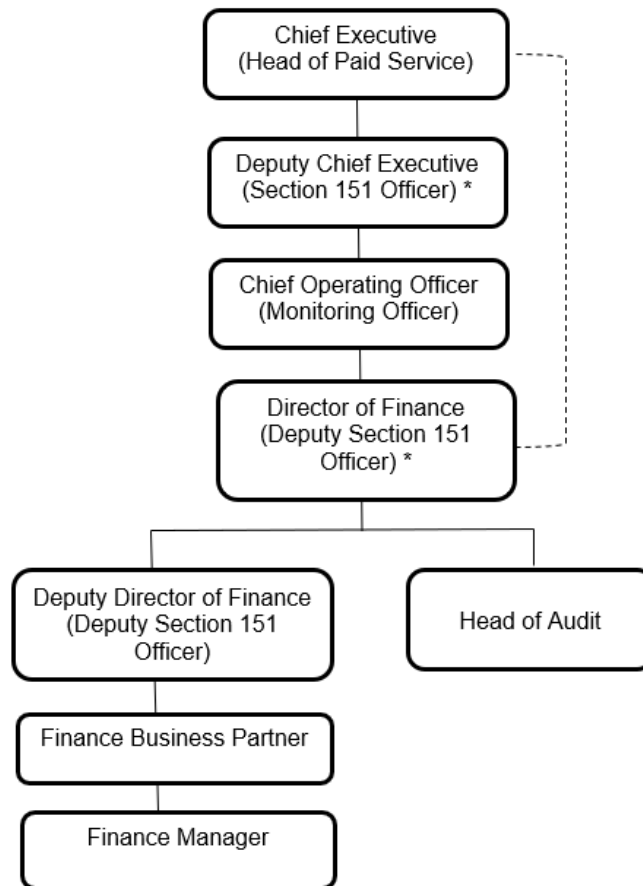
The varied aspects of treasury management and the large volume of funds involved require a clear segregation of duties. The Council's Treasury Management Practices reflect the separation of duties, namely:

- Policy formulation - approved by Council and monitored/amended by Cabinet (Resources) Panel.
- Treasury advice - the Director of Finance is the responsible officer for advising Council and Cabinet (Resources) Panel. The recommendations made to Councillors will also reflect the advice provided to the Director of Finance by specialist external advisors.
- Dealing in the Market - undertaken by rotating use of one of four approved brokers based on best rates on offer.
- Recording, administration and recommendations to the Director of Finance on treasury activity is carried out by the Finance Manager (Treasury Management).
- All transactions are subject to both internal and external audit.

- The Chief Executive has responsibility for ensuring that a specified system is implemented.
- The Chief Operating Officer has responsibility for ensuring compliance with the law.

### 5.3 Treasury management organisation chart

The treasury management organisation chart as at February 2024 is as follows:



\* The Deputy Chief Executive is the Section 151 Officer on a temporary basis due to the Director of Finance being an interim appointment. Once the Director of Finance position has been filled on a permanent basis, the Section 151 role will revert to the Director of Finance.

### 5.4 Statement of duties/responsibilities of each treasury post

#### Director of Finance (Section 151 Officer)

1. The Director of Finance will:

- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submit regular treasury management policy reports to Cabinet (Resources) Panel.
- Submit reports on performance against budgets to Cabinet (Resources) Panel.
- Receive and review management information reports.



- Review the performance of the treasury management function and promote best value reviews.
  - Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
  - Ensure the adequacy of internal audit.
  - Liaising with external audit.
  - Recommend the appointment of external service providers.
2. The Director of Finance has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
  3. The Director of Finance may delegate their power to borrow and invest to members of their staff. The Director of Finance, Deputy Section 151 Officer, Finance Business Partner or any other officer nominated by the Director of Finance must conduct all dealing transactions, or staff authorised by the Director of Finance to act as temporary cover for leave/sickness. All transactions must be authorised by at least one of the named officers above.
  4. The Director of Finance and the Chief Operating Officer will ensure that the treasury management policy is adhered to, and if not, will bring the matter to the attention of elected councillors as soon as possible.
  5. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance to be satisfied, by reference if appropriate to the Chief Operating Officer, and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
  6. It is also the responsibility of the Director of Finance to ensure that the Council complies with the requirements of the UK Money Markets Code (which supersedes The Non Investment Products Code, formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

### **Finance Manager**

Under the direction and supervision of either the Director of Finance or, in their absence, the Deputy Section 151 Officer, the Finance Manager will be responsible for:

- Execution of transactions
- Adherence to agreed policies and practices on a day-to-day basis
- Ensuring that adequate records are maintained and procedures are fully documented
- Maintaining cash flow projections
- Maintaining relationships with third parties and external service providers
- Supervising treasury management staff
- Monitoring performance on a day-to-day basis
- Submitting regular management information reports to the Director of Finance

- Informing treasury management activity, including borrowing options
- Identifying and recommending opportunities for improved practices
- Reporting any actual or potential variations to agreed policies and procedures as they arise.

### **Chief Executive (Head of the Paid Service)**

The responsibilities of this post will be:

- Ensuring that the treasury management system is specified and implemented
- Ensuring that the Director of Finance reports regularly to the Council and Cabinet (Resources) Panel on treasury policy, activity and performance.

### **Chief Operating Officer (Monitoring Officer)**

The responsibilities of this post will be:

- Ensuring compliance by the Director of Finance with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Director of Finance when advice is sought.

### **Internal Audit**

The responsibilities of Internal Audit will be:

- Reviewing compliance with approved policy and treasury management practices.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

## **5.5 Absence cover arrangements**

The Deputy Section 151 Officer will ensure that other staff within Strategic Finance who do not deal with treasury management activities on a daily basis are sufficiently trained so that they can provide absence cover. Such cover will be limited to dealing with the production of daily up-dates of the Council's cash flow statements and, in exceptional circumstances, communicating deals through to the Council's brokers and bank once instructions have been received from either the Director of Finance or the Deputy Section 151 Officer.

## **5.6 Dealing Limits**

The following posts are authorised to deal with Money Market Funds and the Debt Management Account Deposit Facility (DMADF):

- Finance Business Partner
- Deputy Director of Finance

- Director of Finance

There are no dealing limits for the individual posts.

#### **5.7 List of approved brokers**

ICAP (part of the TPICAP Group)  
Martin Brokers (UK) plc  
Tradition UK Limited  
Tullett Prebon (Europe) Limited

#### **5.8 Policy on brokers' services**

To avoid an over-reliance on a single broker and thereby enhance objective dealings, deals will be spread amongst brokers on a rotation basis. The exception being when undertaking temporary borrowing in which case all brokers will be approached to obtain the best rate available.

#### **5.9 Policy on taping of conversations**

Taping of conversations with the Council's brokers and bank is not normally carried out by the Director of Finance or their staff.

#### **5.10 Direct dealing practices**

Direct dealing with counterparties by the Director of Finance or their staff is undertaken with the following, in order to achieve higher rates than dealing with them via our brokers and to maintain adequate levels of liquidity:

- The Council's bankers (National Westminster Bank plc, trading as RBS Commercial & Private Banking) - overnight deposits only
- Invesco Global Asset Management Limited (previously Aim Global Ltd and STIC) - Money Market Fund
- Black Rock Institutional Sterling Liquidity Fund – Money Market Fund
- Aberdeen Liquidity Fund (LUX) (previously called Standard Life Investments Liquidity Fund and Ignis Sterling Liquidity Fund) – Money Market Fund
- Federated Hermes (UK) LLP (previously Prime Rate Sterling Liquidity Fund) - Money Market Fund
- Natwest - Call Account
- Debt Management Account Deposit Facility – Debt Management Office (DMO)

In the event that any of these counterparties fall below the Council's minimum lending criteria, activity in that account will temporarily cease and any balance withdrawn immediately. However, the accounts will remain open for future dealings if or when their credit ratings recover.

#### **5.11 Settlement transmission procedures**

Deals will normally be made by telephone and/or confirmed by fax, with payments being made and sums being received by telephonic transfer.

**5.12 Documentation requirements**

Every deal will be fully documented showing the name of the broker used, amount, period, counterparty, interest rate, date, commission and transmission arrangements. All documentation will be available for inspection by internal and external audit. All documentation will be retained for six years.

**5.13 Arrangements concerning the management of third party funds**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

## **Schedule 6 : TMP 6 – Reporting requirements and management information arrangements**

### **6.1 Annual programme of reporting**

Annual reporting requirements before the start of the year:

- Review of the Council's approved clauses, treasury management policy statement and practices
- Treasury management strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- Capital strategy (reported with the capital monitoring report) to cover the following:
  - Give a long term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
  - An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
  - The Council's risk appetite and specific policies and arrangements for non-treasury investments.
  - Schedule of non-treasury investments.

Mid year review.

Quarterly monitoring or review.

Annual review report after the end of the year.

### **6.2 Annual Treasury Management Strategy Statement**

The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval as part of the overall budget and council tax determination process prior to the commencement of each financial year.

The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Director of Finance may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early (subject to borrowing in advance of need) if fixed interest rates are expected to rise.

The Treasury Management Strategy Statement is concerned with the following elements:

- Prudential and Treasury Indicators
- current treasury portfolio positions
- borrowing requirement
- prospects for interest rates
- borrowing strategy

- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issues
- the Council's MRP policy

The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

### **6.3 Annual Investment Strategy**

At the same time that the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following:

- the Council's risk appetite in respect of security, liquidity and optimum performance
- the definition of high credit quality to determine what are specified investments as distinct from non-specified investments
- which specified and non-specified instruments that the Council will use
- whether they will be used by the in-house team, external managers or both
- the Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- which credit rating agencies the Council will use
- how the Council will deal with changes in rating, rating watches and rating outlooks
- limits of value and time for individual counterparties and groups
- country limits
- maximum value and maximum periods for which funds may be prudently invested
- levels of cash balances and investments over the same time period (as a minimum) as the Council's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
- interest rate outlook
- budget for investment earnings
- a review of the holding of longer-term investments
- Use of a cash fund manager
- policy on the use of external service providers

### **6.4 Annual Minimum Revenue Provisions Statement**

This will set out how the Council will make revenue provision for repayment of its borrowing and will be submitted at the same time as the Annual Treasury Management Strategy Statement and Annual Investment Strategy Statement.

## **6.5 Policy on Prudential and Treasury Indicators**

The Council will approve before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The Director of Finance is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Finance shall submit the changes for approval to full Council.

## **6.6 Quarterly and Mid-year reviews**

The Council will review its treasury management activities and strategy on a quarterly and six monthly basis. The mid-year review will go to Full Council. This review will consider the following:

- activities undertaken
- variations, if any, from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management and prudential indicators

## **6.7 Annual report on treasury management activity**

An annual report will be presented to the Cabinet and to Council, at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

- transactions executed and their revenue effects
- report on risk implications of decisions taken and transactions executed
- compliance report on agreed policies and practices, and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA Code recommendations, approved policies and practices, the Councillor approved treasury management strategy and on statutory/regulatory requirements
- monitoring of treasury management indicators

## **6.8 Management information reports**

Management information reports will be prepared regularly by the Finance Manager and will be presented to the Director of Finance.

These reports will contain the following information:

- a summary of transactions executed and their revenue effects
- measurements of performance including effect on loan charges/investment income
- degree of compliance with original strategy and explanation of variances
- any non-compliance with Prudential limits or other treasury management limits

**6.9 Publication of treasury management reports**

All reports to Cabinet (Resources) Panel, Cabinet, Council and Scrutiny Panel are available to the public via the Council's website.



## **Schedule 7 : TMP 7 – Budgeting, accounting and audit arrangements**

### **7.1 Statutory/regulatory requirements**

The accounts are drawn up in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 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.

### **7.2 Sample budgets / accounts / prudential and treasury indicators**

The Director of Finance will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Director of Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators and will report upon and recommend any changes required in accordance with TMP6.

### **7.3 List of information requirements of external auditors**

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- If used, external fund manager(s) valuations including investment income schedules and movement in capital values.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

#### **7.4 Treasury Management activity reports**

Weekly activity reports are produced summarising the investment / borrowing activities / balances along with PWLB interest rates and the revenue implications of the activity as reported in the quarterly monitoring to Councillors. This report is circulated to the following:

- Leader of the Council
- Cabinet Member with lead responsibility for Resources
- Leader of the Opposition
- Chief Executive
- Director of Finance
- Chief Operating Officer (the Monitoring Officer)
- Deputy Director of Finance

In addition, quarterly reports are submitted to Cabinet (Resources) Panel / Cabinet / Full Council (as required) and Scrutiny Panel. The report is intended to highlight any variances between budget and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

## **Schedule 8 : TMP 8 – Cash and cash flow management**

### **8.1 Arrangements for preparing/submitting short-term cash flow statements**

The Finance Manager prior to the start of a new financial year will prepare a cash flow statement showing the Council's expected payments and income over that forthcoming financial year. These projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipt dates. This will be updated daily by no later than 11.00 a.m. to form rolling cash flow forecasts. The cash flow forecast will be monitored on a regular basis by the Director of Finance or, in their absence, the Deputy Section 151 Officer.

The cash flow forecast will identify the following factors:

- Payments
  - Repayment of maturity and instalment loans
  - Profile of salary payments
  - Profile of payments to HMRC for income tax and national insurance
  - Profile of payments to precepting authorities
  - Profile of creditor payments
  - CHAPS and Telephone Transfer payments to be identified in advance
- Income
  - Profile of Government Grants
  - Profile of Dedicated Schools Grant
  - Profile of other Grants
  - Profile of daily cash income
  - Profile of VAT reimbursements
  - Profile of weekly Collection Fund income
  - Large capital receipts to be identified

The cash flow forecast for the financial year will be updated on a daily basis. In addition, a forecast for the following financial year will be created 3 months prior to the start of that year. Forecasts will be monitored against daily bankings and clearings.

The estimated daily bank overdraft is not to exceed £500,000.

### **8.2 Arrangements for preparing/submitting medium to long-term forecasts of the Council's net debt (or net investment) requirements consistent with its approved plans, e.g. through development of a liability benchmark.**

The Council will develop a debt liability benchmark as a minimum for the forthcoming financial year and the following two financial years. The liability benchmark will then be reported each quarter along with the other required indicators. The benchmark will be analysed as part of the annual treasury management strategy and any substantial mismatches between actual loan debt outstanding and the liability benchmark will be explained.

### **8.3 Bank statement procedures**

Daily bank statements for all accounts are available through online banking which are reconciled to all income and expenditure. Bank reconciliation is the responsibility of the Banking Team.

### **8.4 Payment scheduling and agreed terms of trade with creditors**

All contracts for the supply of goods or services must be subject to the Council's standard payment terms – monthly in arrears. Any contracts which require special financing arrangements must be agreed by the Director of Finance.

Where a contract provides for payments to be made by instalments following the delivery of services or completion of work, a cost plan must be prepared for such contracts and payments monitored against that plan by the service.

Work carried out by 'statutory undertakings' is excluded from the Competition Requirements of the Contracts Procedure Rules and payment in advance of the works being carried out is considered to be acceptable.

The standard method of payment of creditors is by BACS, 30 days from date of invoice unless the invoice is in dispute. However, due to the Covid 19 pandemic, to assist the local economy the 30 days terms have temporarily been suspended so payments are made quicker.

### **8.5 Arrangements for monitoring debtor/creditor levels**

With regards debtors, the levels of credits and debits held are regularly analysed by Revenues and Benefits to identify action required.

The Hub Payments Team carry out regular analysis of creditor levels.

### **8.6 Procedures for banking of funds**

The Director of Finance shall approve the arrangements for the collection and banking of all money due to the Council.

Each officer shall ensure the prompt raising of debtor invoices for the recovery of income due.

All stationery used in connection with the collection and allocation of income shall be held and distributed under approval from the Director of Finance.

On receipt of income the employee shall; immediately record the transaction, provide the customer with verification of payment and subsequently bank the monies in accordance with Council procedure rules.

No deduction may be made from any income receipted without approval from the Director of Finance.

In accordance with the Accounts and Audit Regulations 2015, the amount of each cheque shall be recorded on either the bank paying in slip or an attached cheque listing detailing; the amount, the receipt number or reconciling information.

Personal cheques shall not be cashed through the Council's bank accounts.

Any transfer of physical money from one employee to another will be evidenced in the records of the responsible service.

The Council has established an Anti-Money Laundering Policy to ensure it is compliant with the requirements of the current Money Laundering Regulations.

Therefore, all employees receiving cash on behalf of the Council should ensure that they comply with this policy.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

All income streams in excess of £25,000 that were not included in the approved budget shall be reported to the Director of Finance at the earliest opportunity.

## **Schedule 9 : TMP 9 – Money laundering**

The Council last updated its anti-money laundering policy and procedure in 2017, below is a copy of this policy approved by Audit and Risk Committee. The policy is currently being updated to reflect the recent Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations. Once updated it will be taken back to the Audit and Risk Committee for approval.

### **9.1 Introduction**

Money laundering is any process whereby funds derived from criminal activity are given the appearance of being legitimate. The Council must be alert to the possibility that attempts could be made to utilise funds obtained from criminal activity to pay for Council services.

The Council is committed to preventing money laundering by having anti-money laundering systems in place to establish the legitimacy of the sources of income.

This Anti-Money Laundering Policy makes it clear that it is extremely important that all employees are familiar with:

- the legal responsibilities;
- the criminal sanctions that may be imposed for breaches of the money laundering legislation;
- the need to be vigilant and take appropriate steps to reduce the opportunities for breaches of the Money Laundering Regulations;
- The key requirement to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

### **9.2 Legal requirements**

#### **The Money Laundering Regulations 2007**

These regulations set out detailed requirements for organisations to establish procedures to prevent its services being utilised for the purposes of money laundering.

While public authorities are not legally obliged to apply the provisions of the regulations as they do not fall under the term 'regulated activity'. Certain public authorities must, if they know or suspect or have reasonable grounds for knowing or suspecting, that a person is or has engaged in money laundering or terrorist financing, as soon as reasonably practical inform the National Crime Agency. The Council is not one of the certain public authorities, but it will nonetheless inform the National Crime Agency in the same way.

Therefore, as a responsible public body the Council is employing policies and procedures which embrace the UK's anti-terrorist financing, and anti-money laundering requirements, with a particular focus on CIPFA's "Combatting Financial Crime – Further Guidance on Anti-money Laundering for Public Service Organisations".

### **The Terrorism Act 2000**

This applies to all individuals and businesses in the UK and therefore all employees and councillors within the Council have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for terrorism or its laundering where it relates to information that comes to them in the course of their business or employment. The primary offence states a person commits an offence if he enters into or becomes concerned in an arrangement which facilitates the retention or control by or on behalf of another person of terrorist property by concealment, by removal from the jurisdiction, by transfer to nominees, or in any other way.

### **The Proceeds of Crime Act (POCA) 2002**

This Act applies to all individuals and organisations and further defines the offences of money laundering and creates mechanisms for investigating and recovering the proceeds of crime as well as placing an obligation on the Council, employees and councillors to report suspected money laundering activities. The primary offences are:

- Section 327 - concealing, disguising, converting, transferring or removing criminal property from the UK;
- Section 328 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- Section 329 - acquiring, using or possessing criminal property.

#### **9.3 Which service areas may be affected by money laundering?**

Examples of how the Council may be exposed to money laundering include accepting large cash amounts, the involvement of third parties, the request of a large refund and property investment or purchases.

Also, the Money Laundering legislation defines 'regulated activity' as the provision 'by way of business' of advice about tax affairs, accounting services, treasury management, investment or other financial services, audit services, legal services, estate agency, services involving the formation, operation or arrangement of a company or trust or, dealing in goods wherever a transaction involves a payment of €15,000 (approx. £12,500) or more.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

#### **9.4 Establishing the identity of a new business relationship**

As a responsible Council, we should be aware of any suspicions arising out of funds received from a source from which we are unfamiliar. If the Council forms a new business relationship (including a significant one-off transaction) care should be taken to ensure that the client is identifiable by making basic checks on their credentials, along with confirmation of where funds are coming from. This should not be an onerous task, but,

we should ensure that we are clear about whom we are conducting business with. This will be especially important if the parties concerned are not physically present for identification purposes and to situations where someone may be acting for absent third parties. This is known as due diligence and must be carried out before any such business is entered into with the customer. If there is uncertainty whether such due diligence is required then advice must be obtained from the Money Laundering Reporting Officer.

Due diligence can be used to evidence a customer's identity by, for example:

- checking with the customer's website to confirm their business address
- conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors
- Conducting personal identity checks for example, requesting that the customer provide their current passport/driving licence, birth certificates

In certain circumstances enhanced customer due diligence may need to be carried out, for example, where:

- the customer has not been physically present for identification
- the customer is a politically exposed person
- there is a beneficial owner who is not the customer – a beneficial owner is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

If it is believed that enhanced customer due diligence is required then the Money Laundering Reporting Officer should be consulted prior to carrying it out. Customer due diligence should be completed for all relevant new customers and for existing customers, during the life of a business relationship, proportionate to the risk of money laundering and terrorist funding.

## **9.5 Reporting suspected cases of Money Laundering**

Where an employee or Councillor knows or suspects that money laundering activity is taking/has taken place, or becomes concerned that their involvement in a matter may amount to a prohibited act under sections 327 to 329 of POCA, they must disclose this without delay or as soon as reasonably practicable to the Money Laundering Reporting Officer. Failure to report such activity may render the employee subject to prosecution and/or disciplinary action in accordance with the Council's disciplinary policy. The procedure for disclosure is:

- to complete a 'Disclosure Report to the Money Laundering Reporting Officer Form' and to include as much detail as possible e.g. name, date of birth, address, company names, directorships, phone numbers, nature of the activity etc;

The Council has appointed the following employee as the Money Laundering Reporting Officer (MLRO):

**Ian Cotterill - Head of Internal Audit**

Tel: (01902) 554475

e-mail: [ian.cotterill@wolverhampton.gov.uk](mailto:ian.cotterill@wolverhampton.gov.uk)



In the absence of the MLRO listed above, the following employee is authorised to deputise:

**Mark Wilkes, Client Lead Auditor**

Tel: (01902) 554462

e-mail: mark.wilkes@wolverhampton.gov.uk

Further advice on money laundering matters can also be obtained from:

**David Pattison – Chief Operating Officer/Monitoring Officer**

Tel: (01902) 553840

e-mail: david.pattison@wolverhampton.gov.uk

**9.6 Investigating and Reporting Money Laundering**

**How will the Money Laundering Reporting Officer investigate a disclosure?**

The Money Laundering Reporting Officer will:

- acknowledge receipt of the disclosure report;
- assess the information provided to make a judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering activities and;
- prepare a Suspicious Activity Report (SAR) to the National Crime Agency (NCA), where appropriate;
- The employee or councillor must follow any directions given by the Money Laundering Reporting Officer
- The employee or councillor must cease all involvement in the transaction (not make any further enquiries into the matter themselves) unless or until consent is provided by the NCA.
- The employee or councillor must specify in the disclosure report if such consent is required to comply with any transaction deadlines.
- Any necessary investigation will be undertaken by the NCA. Employees and councillors will be required to co-operate with any subsequent money laundering investigation.
- At no time and under no circumstances should the employee or councillor voice any suspicions to the person(s) suspected of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the Money Laundering Reporting Officer.
- Where the Money Laundering Reporting Officer concludes that there are no reasonable grounds to suspect money laundering then they shall mark the disclosure report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- All in-house disclosure reports and NCA Suspicious Activity Reports will be retained for a minimum of five years after the business relationship ends or an occasional transaction is completed.

## **9.7 Record Keeping**

Each area of the Council which conducts relevant business must maintain suitable records of any completed due diligence checks and details of relevant transactions must be maintained for at least five years. This provides an audit trail and evidence for any subsequent investigation into money laundering, for example, distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

## **9.8 Review of the Money Laundering Policy**

The Money Laundering Policy will be reviewed on an annual basis by the Head of Audit and the Audit and Risk Committee to ensure that it remains up to date, fit for purpose and represents generally acceptable good practice.

## **Schedule 10 : TMP 10 – Training and qualifications**

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Conversation review system which identifies the training requirements of 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 Finance to ensure that all staff under their authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

### **10.1 Details of approved training courses, etc.**

Treasury management staff and Councillors will undertake training, principally using seminars and training, where appropriate, provided by the Council's external treasury management advisors, CIPFA, money brokers etc.:

- bi-annual seminars, including workshops
- regional training
- specific training or individual briefing sessions

### **10.2 Records of training received by treasury staff**

A record will be maintained of all training courses and seminars attended by staff engaged in treasury management activities.

### **10.3 Experience and approved qualifications for treasury staff and Councillors**

All staff engaged on treasury management activities will undergo regular management development reviews to assist in career development.

The Deputy Section 151 Officer, Finance Business Partner and Finance Manager will be professionally qualified accountants, preferably CIPFA.

### **10.4 Standards of professional practice (SOPP)**

The Council's Director of Finance is a member of CIPFA. The postholder is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other senior staff involved in treasury management activities who are members of CIPFA will also comply with the SOPP.

### **10.5 Councillor training records**

Records will be kept by Organisational Development of all training in treasury management provided to Councillors.

### **10.6 Councillors charged with governance**

Councillors charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

## **Schedule 11 : TMP 11 – Use of external service providers**

### **11.1 Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of services provided**

The Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the Council, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide the appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding of undue reliance:

- quality financial press
- market data
- information on government support for banks
- the credit ratings of that government support

#### **Core Banking Services**

Name of supplier of service - National Westminster Bank plc, trading as RBS Commercial & Private Banking.

Contract commenced 1 April 2022 and runs for two years with two options to extend for a further three and two years respectively.

The above contract was awarded by Cabinet (Resources) Panel on 20 October 2021.

#### **Merchant Acquiring Services (Card Acquiring Services)**

Name of supplier service – Lloyds Banking Group.

Contract commenced 1 August 2022 and runs for one year with three options to extend for a further one year each.

The above contract was awarded by Cabinet (Resources) Panel on 27 July 2022.

#### **Money-broking services**

The Council may 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.

ICAP (part of the TPICAP Group)

Martin Brokers (UK) plc

Tradition UK Limited

Tullett Prebon (Europe) Limited

**Consultants'/advisers' services:**

**Treasury consultancy services**

Name of supplier of service – Link Group

Contract commenced 1 January 2023 for three years until 31 December 2025 with a possibility of two extensions of twelve months each.

Service provided - treasury management specialist advice

**Cash/fund management services**

No external suppliers are used to provide these services.

**Credit rating agency**

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

**11.2 Procedures and frequency for tendering services**

See Schedule 2 : TMP 2 Performance measurement.

## **Schedule 12 : TMP 12 – Corporate governance**

### **12.1 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 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:

- Treasury Management Policy and Practices Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Treasury Report
- Treasury Management monitoring reports (e.g. half yearly, quarterly)
- Annual Statement of Accounts and financial instruments disclosure note
- Annual budget and Medium Term Financial Strategy
- HRA Business Plan
- Approved Capital Programme
- Capital Strategy
- Minutes of Council/Cabinet/Scrutiny meetings

### **12.2 Procedures for consultation with stakeholders**

Stakeholders have an opportunity to comment on the Council's Treasury Management activities as part of the overall annual budget consultation process and to inspect any transactions when the Council's accounts are placed on deposit for inspection each year.

### **12.3 List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments**

The Council does not manage funds on behalf of other organisations.