

**Treasury Management  
Practices**

**Part 2: Schedules**

**February 2011**

## TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules that set out the details of how the Treasury Management Practices (TMPs) are put into effect by this Council.

Key Principles:

- TMP 1 Risk management
- TMP 2 Performance measurement
- TMP 3 Decision-making and analysis
- TMP 4 Approved instruments, methods and techniques
- TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP 6 Reporting requirements and management information arrangements
- TMP 7 Budgeting, accounting and audit arrangements
- TMP 8 Cash and cash flow management
- TMP 9 Money laundering
- TMP 10 Training and qualifications
- TMP 11 Use of external service providers
- TMP 12 Corporate governance

## **SCHEDULES TO THE TMPs - KEY PRINCIPLES**

The key principles of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes are that:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The Schedules to the Treasury Management Practices that follow and the Council's Treasury Management Strategy at report Annex F, are drafted in the context of these principles, as well as the requirements of the four key clauses (report Annex A), the Treasury Management Policy Statement (report Annex C), and the Treasury Management Practices – Main Principles (report Annex D).

**TMP 1 RISK MANAGEMENT**

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**1) Credit and counterparty risk management**

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital or 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.

***Specified Investments***

The Council may enter into any type of investment instrument categorised as a specified investment (See TMP 4 Approved instruments, methods and techniques). Any type of specified investment that has not habitually been used by the Council – i.e. has not been used within the previous twelve month period, will only be entered into after consultation with the Council's external treasury management advisors, and with the express approval of the Chief Finance Officer. Should the Chief Finance Officer consider that for reasons of unfamiliarity or for any other reason that increases risk, the investment should be treated as a non-specified investment, then the approval of Cabinet will be sought before any investment is entered into.

All investments, with the exception of those to other local authorities and the Governments UK Debt Management Office, will be placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory rating by the Council's external treasury management advisors based upon credit ratings issued by the three main rating agencies, and also taking into account other relevant factors (e.g. sovereign ratings and movements in credit default swaps).

***Non-specified investments***

The Council will set a limit each year for the level and type of non-specified investments that may be placed at any one time. This limit will be set in the Annual Investment Strategy and also, for investments over 364 days, in the Prudential Indicators.

The Council may undertake investments over 364 days, which are classified as unspecified investments. The maximum period of investment will be two years. These investments will only be placed with eligible counterparties, after consultation with the Council's external treasury management advisors and with the approval of the Finance Manager (Treasury).

***Capital Expenditure***

The Council may make loans to third parties for the purpose of capital expenditure as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146)

***Counterparties***

The CIPFA Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes has emphatically laid down that the use of credit risk control measures in selecting counterparties with high credit worthiness to place on an approved

counterparty list must be a normal and minimum part of day to day treasury management for all local authorities and public bodies.

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with. Credit ratings will be used as supplied by the Council's external treasury management advisors, combining ratings from Fitch, Moody's and Standard and Poor's.

However, sole reliance will not be placed on credit ratings. Professional advice will be taken from the Council's external treasury management advisors on which institutions present the minimum level of risk to the authority. This analysis may include other criteria to determine creditworthiness; for example sovereign ratings and/or credit default swap spreads. These recommendations will form the Council's minimum levels of credit risk.

The Council is alerted to changes in credit ratings, and other relevant data such as rating watches, alerts or outlooks through its use of the creditworthiness service of its external treasury management advisers. Any changes to ratings are notified to the authority immediately and action is then taken to immediately remove them from or add them to the list as appropriate.

The Council will also use other independent external data - for example from market data and information, the quality financial press, information on government support for banks, and the credit ratings of that government support - to further inform its assessment of the financial standing of counterparties on its approved list.

High credit quality will be as defined in the Council's Treasury Management Strategy.

The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.

The counterparty list may be further restricted with the approval of the Chief Finance Officer to limit the exposure of the authority to risk in times of economic or market uncertainty.

Treasury management staff will add or delete counterparties to or from the approved counterparty list in line with the policy on criteria for selection of counterparties, and as appropriate when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The maximum value for any single investment transaction will be £5m.

The maximum level of investment with any counterparty, or group of counterparties will be £12m, with the following exceptions:

- £15m for UK banks or building societies supported by the UK banking system support package
- £15m for UK nationalised or part nationalised banking institutions
- £15m for the UK Debt Management Office
- £15m for other local authorities

Any proposals for adjustments to these maximum lending limits required to enable the effective management of risk in relation to investment will be submitted to Cabinet for approval.

Diversification will be achieved through the use of both UK and overseas counterparties and the application of the maximum investment levels. The maximum percentage of the portfolio that may be placed with overseas counterparties at any one time is 50%.

For the purposes of setting limits, institutions within the same banking group (eg Lloyds Banking Group) will be treated as a single counterparty.

The criteria in place to determine inclusion in the Council's current lending list will be reported as part of the Annual Investment Strategy. This will not limit the Chief Finance Officer's discretion to make temporary or other changes, so long as all investments are in line with the Council's minimum levels of credit risk and the requirements set out above under specified or non-specified investments.

### **2) Liquidity risk management**

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

Money market investments will be placed with a view to maturity dates which correlate to cashflow needs for the discharge of the Council's liabilities.

Sufficient levels of cash deposits will be kept available in bank and building society deposit accounts, to meet short-term cashflow needs. This will include at least £5m available at 24 hours notice.

Bank balances will be maintained within the terms agreed with the Council's bankers, and by having regard to any constraints on the minimum sum that can effectively be invested.

The Council has an agreed overdraft facility of £200k with its bankers.

The Council may undertake temporary borrowing, in accordance with Part 1 of the Local Government Act 2003, if necessary to maintain a sufficient level of liquidity at a particular point in time.

Under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years. The Council's policy on borrowing in advance of need is set out at Section 3 of the Council's Treasury Management Strategy. Any such borrowings will be invested within the rules of the Council's agreed investment and counterparty policies.

### **3) Interest rate risk management**

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

The upper limits for fixed and variable interest rate exposures in respect of net external debt are set each year by the Council as treasury indicators, in accordance with the Local Government Act 2003 and the associated regulatory framework. These are set out in the Council's Annual Treasury Management Strategy.

### **4) Exchange rate risk management**

Exchange rate risk is the risk that fluctuations in the levels of foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself.

The Council will only enter into loans and investments that are settled in £ sterling.

### **5) Refinancing risk management**

Refinancing risk management 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 refinancings, both capital and current (revenue) and/or that the terms are inconsistent with prevailing market conditions at the time.

A schedule will be maintained of all long-term loans, including maturity profiles, in order to assist with the consideration of possible rescheduling opportunities that may arise as a result of changes to interest rates.

All rescheduling proposals will be fully costed in terms of costs/benefits to the organisation in the short, medium and long term, and in the context of the latest accounting guidance and regulations.

No refinancing of loans will be undertaken without the advice of the Council's external treasury management advisers and the express approval of the Chief Finance Officer.

### **6) Legal and regulatory risk management**

Legal and regulatory risk is the risk that the Council, 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.

The Council is mindful that all treasury management activities must be carried out within the current legal and regulatory framework.

This includes the following:

- Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007
- The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008
- CIPFA Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition) 2009

- CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009
- CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009
- CLG Guidance on Minimum Revenue Provision (2010)
- CLG Guidance on Local Authority Investments (2010)

As well as the statutory and regulatory documents listed above, regard will be had to other relevant statute and guidance - e.g. as relating to money laundering (see Schedule to TMP 9)

The treasury function should also comply with the requirements of the Bank of England revised Non-Investment Products Code (NIPs Code), which was drawn up by a wide cross-section of market practitioners in April 2009. The NIPs Code, which is market guidance, has no statutory underpinning; and there are no arrangements for supervision or enforcement. CIPFA commends the NIPs Code to its members as good practice to which they should adhere.

Officers responsible for strategic and operational treasury management decisions are required to keep abreast of new legislation and regulations impacting on the treasury management function, and to apply any changes as necessary (See Schedule to TMP 10).

Legal and regulatory risks associated with other organisations with which the Council deals in its treasury management activities are managed through counterparty risk management policies.

### **7) Fraud, error and corruption, and contingency management**

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

Officers involved in treasury management are explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council. All treasury activities must be carried out in strict accordance with the agreed systems and procedures in order to prevent opportunities for fraud, error and corruption.

#### ***Scheme of delegation and separation of duties***

- (i) The Director of Finance & Support, the Council's Chief Finance Officer (CFO) and Section 151 Officer, has been nominated as the Responsible Officer.

All executive decisions on borrowing, investment or financing have been delegated to the CFO.

- (ii) Finance Manager (Treasury) (FMT)



The FMT has been nominated as the Operational Manager and is responsible for managing the overall treasury function and ensuring that at all times there is compliance with the Council's Schedules to the Treasury Management Practices (TMPs).

The FMT has the authority, together with CFO and other senior officers nominated by the CFO, including the Head of Finance, the Assistant Head of Finance, and the other Finance Managers, on being satisfied that procedures have been complied with, to authorise the release of monies from the council's bank account, by whatever means appropriate, to repay monies borrowed or to invest short term temporary cash balances.

The FMT has the authority, together with the Head of Finance, and the Assistant Head of Finance, to undertake borrowing from the PWLB or through money brokers on the documented approval of the CFO and being satisfied that all procedures have been complied with.

Neither the FMT, the Head of Finance, the Assistant Head of Finance, nor the other Finance Managers are authorised to enter into transactions with brokers for the investment or lending of any monies.

- (iii) The Assistant Accountant (AA) with day-to-day treasury management responsibilities in the Capital & Treasury Team is the main point of contact with the money market. In this capacity the AA is empowered to conclude deals with brokers or directly with counterparties for the investment and lending of monies on behalf of the Council within the conditions and criteria set out within the Schedules to the TMPs.

The AA may also carry out the administrative functions associated with the daily treasury activity in the absence of the Trainee Accountant (TA) – see below.

The CFO will authorise cover staff from within the Finance Section to cover this function in the absence of the AA.

Neither the AA, nor any person nominated to cover their role, is authorised to effect the final approval of monies to be released, by whatever means, from the Council's bank account.

- (iv) The Trainee Accountant (TA) with day to day treasury management responsibilities in the Capital & Treasury Team is responsible for carrying out back office checks on the treasury activities on a daily basis.

The CFO will authorise cover staff from within the Finance Section to cover this function in the absence of the TA.

The TA is also responsible for carrying out the administrative functions associated with the daily treasury activity. In his or her absence the AA may cover these duties.

A schedule will be maintained by the FMT of all officers currently nominated for each level of delegation set above.

### ***Internal Audit***

The treasury management function will be the subject of an internal audit review on a regular basis as determined in the audit plan, and full and free access to all records will be given.

This review will include:

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

### ***Dealing procedures***

All dealing activities will be carried out in line with the Council's documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Management Strategy.

The AA is responsible for maintaining a schedule of procedure notes, and ensuring that these are made available to all relevant personnel.

All procedure notes will be assigned to a nominated individual who is responsible for reviewing and updating them on a regular basis.

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

A business continuity plan is maintained by the FMT in the format prescribed by the Council in its Risk Management Strategy. This is backed up by detailed procedure notes. Both the plan and the procedure notes are reviewed and updated at least annually, or more frequently if circumstances change.

The plan covers the treasury management functions listed below, which are carried out or reviewed on a daily basis, and are considered to be level 3 critical functions.

- The daily management of the Council's cash flow and bank balances
- The placing and recovery of investments
- Transfers to and from deposit accounts
- Transfers between the Council's bank accounts
- CHAPS payments
- Stopped cheques

Other treasury management functions, not set out above, are not considered to be critical functions according to the agreed criteria, and are not included in this business continuity plan

### ***Insurance cover details***

Fidelity guarantee insurance cover is in place as required by law and officials indemnity insurance is also held by the Council.

## 8) Market Risk Management

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

The Council does not currently hold any investments that are subject to fluctuations in market value, such as gilts and CDs, and therefore does not currently have in place any procedures or limits for controlling exposure to those instruments. If circumstances change procedures will be put in place and agreed by the CFO before any such financial instruments are arranged. The procedures will require that before using any such investment products the treasury management staff will:

- Fully understand how the investment product works
- Fully understand what degree of risk exposure the product has
- Be comfortable that it is a suitable product that meets the risk appetite of the authority
- Be sure that the product complies with the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009
- Ensure that they are fully satisfied with the level of security of the product
- Apply value for money principles to optimise investment returns

## **TMP 2 PERFORMANCE MEASUREMENT**

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### **1) Evaluation of treasury management decisions**

#### ***Performance reporting to management***

Monthly treasury management meetings are held to review the previous month's treasury activity and to plan for the following month and beyond. The meeting is attended by:

- Head of Finance
- Assistant Head of Finance
- Finance Manager (Treasury)
- Assistant Accountant responsible for the operational treasury management
- Trainee Accountant responsible for treasury administration and the back office function.

The minutes and performance data arising from each meeting are reported to the Chief Financial Officer to provide regular management information on treasury management operations and performance.

The terms of reference for the meeting are as follows:

1. To record and review treasury management performance data
2. To discuss and agree or recommend actions pertaining to:
  - a) Investment issues
  - b) Debt issues
  - c) Prudential Indicators
  - d) Debt financing budget
  - e) Treasury management strategic issues
  - f) Treasury management processes and procedures
  - g) Bank contract
  - h) Business continuity and contingency arrangements
3. To report upwards to the Head of Finance and the Chief Financial Officer, by means of:
  - a) Performance data
  - b) Documented decisions and action points

Corporate performance targets are set annually as part of the Finance Service Plan, and these are reported monthly to management through the Corporate Performance Reporting process, using the Councils Performance Plus reporting tool. These are reviewed and set annually, but will include, as a minimum, targets for the average rate of interest achieved on temporary investments, and parameters for the level of daily bank balances.

In addition to the minuted monthly meetings, quarterly treasury management strategy meetings are held with the Council's Chief Finance Officer to discuss key strategic treasury issues. These are attended by the Head of Finance, the Assistant Head of Finance and the Finance Manager (Treasury).

***Performance reporting to Cabinet and Council***

Treasury management performance will be reported to Cabinet and Council at least twice each year, as follows:

The annual Treasury Management Mid Year report will be submitted to Council by 31 January before the financial year-end. The report will cover:

- Treasury activities undertaken
- Variations (if any) from agreed policies and practices
- Treasury performance to 30 September
- Monitoring information
- Monitoring of treasury management indicators and prudential indicators

The annual Treasury Management Outturn report will be submitted to Council by 30 September following the year-end. The report will cover:

- Transactions executed and their revenue (current effects)
- The risk implications of decisions taken and transactions executed
- Compliance with agreed policies and practices and with statutory and regulatory requirements
- Treasury performance
- Compliance with the latest CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes
- Monitoring of treasury management indicators and prudential indicators

Council will also receive an annual prudential indicator setting report in line with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities (Fully revised second edition 2009)

In addition to the above Cabinet will receive monthly debt financing budget monitoring information, which is prepared and presented to Cabinet as part of the Council's overall revenue budget monitoring cycle and dashboard reporting.

**2) Testing value for money**

Banking services are re-tendered at least once every five years to ensure that the level of service reflects changing practices and represents value for money. During the life of the contract the Council's bankers will be required to be pro-active in drawing attention to new or innovative banking products that will assist with workflow, or which will generate savings for the Council in its banking related costs.

It is the Council's policy to appoint professional treasury management consultants specialising in local authority business, and this contract will be re-tendered at least once every five years.

The Council uses money broking services in order to make deposits or to borrow. A minimum of two money brokers are used in order to compare the rates offered. For operational purposes three brokers will typically be used, given the number of investment transactions currently undertaken. The standard of service provided is monitored on an ongoing basis.

### **3) Benchmarking**

The Council completes and submits the annual CIPFA Capital Expenditure and Treasury Management Statistics to enable comparisons of treasury management service costs with other local authorities.

In addition the Council has membership of the IPF Treasury Benchmarking Club, involving the completion of questionnaires and the attendance at meetings, usually twice a year. This membership is kept under review to ensure that it continues to be useful to the Council.

**TMP 3 DECISION-MAKING AND ANALYSIS**

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**Funding, borrowing, lending and new instruments/techniques*****Records to be kept***

For each **counterparty** with which the council has treasury dealings, the following data will be maintained:

- Name and address and local contact if appropriate
- Bank details, name, address, sort code and account number
- Counterparty type and sector (for CIPFA and CLG returns)
- Borrowing and lending limits
- Maximum investment periods

For each **broker** with which the Council has dealings with the following data will be maintained:

- Name and address
- Local contact name
- Telephone and fax numbers
- Commission rates for borrowing

For each **transaction** the following data will be maintained:

- NBC reference
- Counterparty details
- Principal amount
- Transaction type
- Value date
- Repayment date, if fixed
- Initial interest rate
- Broker, if applicable
- Interest amount, if fixed

If the transaction is a variable rate instrument details of interest rate revisions and the final repayment date will be maintained.

For each **long-term loan** raised the data will be maintained:

- NBC reference
- Counterparty details
- Principal amount

- Start and maturity dates
- Repayment method and period
- Interest rate and amount
- Interest payment dates
- Method of interest payment

***Processes to be pursued***

All dealing activities will be carried out in line with the Council's documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Management Strategy.

The AA is responsible for maintaining a schedule of procedure notes, and ensuring that these are made available to all relevant personnel.

All procedure notes are assigned to a nominated individual who is responsible for reviewing and updating them on a regular basis.

***Issues to be addressed***

The Council's Financial Regulations delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management

The Council's Section 151 Officer is the Director of Finance and Support, who is also the Council's Chief Finance Officer (CFO).

Operational treasury management decisions have been further delegated to other staff as set out in the Schedule to TMP 5 (Section 4 Duties and Responsibilities).

In respect of every decision made the CFO and the Council's treasury management staff will:

- Above all be clear about the nature and extent of the risk 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 transaction have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions the CFO and the Council's treasury management staff will:



- Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets
- 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.

In respect of investment decisions the CFO and the Council's treasury management staff 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.

Further details on how decision making processes are managed at an operational level, and in the context of the prevention and management of fraud, error and corruption and contingency management, are contained in the Schedule to TMP 1 (Section 7 Fraud, error and corruption, and contingency management).

## **TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

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### **1) Approved activities of the treasury management operation**

Approved activities of the Council's treasury management function include:

- Cash flow management
- Money market investments
- Use of external deposit accounts
- Treasury related banking activities
- Borrowing
- Debt repayment and rescheduling
- Risk management of treasury management activities
- Developing treasury policy and Treasury Management Strategy
- Reporting on treasury management activities

### **2) Approved instruments for investments**

Under the Local Government Act 2003 the Council is required to have regard to the CLG revised Guidance on Local Government Investments (2010) and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Fully revised second edition 2009) and Guidance Notes for Local Authorities (Fully revised third edition 2009).

In accordance with the CLG revised Guidance on Local Authority Investments issued under Section 15 (1) (a) of the Local Government Act 2003 the instruments approved for investment by local authorities are sub-divided into specified and non-specified investments.

- Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.
- Non-specified investments – do not satisfy the conditions for specified investments.

#### ***Specified investments***

An investment is a specified investment if it satisfies the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment. A long term investment is defined as any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made, or (b) one which the local authority may require to be repaid within that period.
- The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended)

- The investment is made with a body or in an investment scheme of high credit quality; or with one of the following public sector bodies:
  - (i) The United Kingdom Government
  - (ii) A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
  - (iii) A parish council or community council.

High credit quality is as defined in the Council's Treasury Management Strategy at Annex F (Section 16)

The following types of instruments may fall into the category of specified investments where they have a maturity of less than one year (i.e. 364 days or less) and the counterparty meets the Council's definition of high credit quality

- Gilts
- Treasury Bills
- Term deposits with local authorities and banks and building societies with a high credit quality
- Certificates of deposit with banks and building societies with a high credit quality
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534
- Triple A rated Money Market Funds (MMFs)
- Debt Management Office Deposit Facility
- Reverse Gilt Repos
- Forward deals with banks and building societies with a high credit quality (negotiated deal period plus period of deposit must be less than 364 days)
- Commercial paper
- Gilt funds and other bond funds

However caution must be exercised. Any investment product that takes on greater risk should be subject to greater scrutiny and justification, and will fall into the category of non-specified investments. The greater risk may be by virtue of unfamiliarity on the part of the Council's treasury management staff.

### ***Non-specified investments***

Non-specified investments include those listed above with a maturity of one year or longer, together with investments made with a body or scheme that does not have a high credit quality as defined in the Council's Treasury Management Strategy.

In addition, any investment product that takes on greater risk should be subject to greater scrutiny and justification, and will fall into the category of non-specified investments.

Should the Chief Finance Officer determine that the authority would wish to make use of such higher risk investments, this will be brought to Council as a specific change to the Annual Investment Strategy in order that the decision to use such instruments receives effective scrutiny by those charged with governance.

### **3) Investments methods and techniques**

The Council may enter into any type of investment instrument categorised as a specified investment, as listed above.

The majority of the Council's investments fall into the category of specified investments, as they relate to short term cash flow surpluses that can be invested until required to meet expenditure commitments.

Any type of specified investment that has not habitually been used by the Council – i.e. has not been used within the previous two year period will only be entered into after consultation with the Council's external treasury advisers, and with the express approval of the Chief Finance Officer. Should the Chief Finance Officer consider that for reasons of unfamiliarity or for any other reason that increases risk, the investment should be treated as a non-specified investment then the approval of Cabinet will be sought before any investment is entered into.

The Council will set a limit each year for the level and type of non-specified investments that may be placed at any one time. This limit will be set in the Annual Investment Strategy.

The Council may undertake investments over 364 days, which are classified as unspecified investments. The maximum period of investment will be two years. These investments will only be placed with eligible counterparties, after consultation with the Council's external treasury management advisors and with the approval of the Finance Manager (Treasury).

Investments, with the exception of those to other local authorities and the UK Debt Management Office, will be placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory rating by the Council's external treasury advisors.

Only counterparties in the Council's current lending list, using the criteria determined by the Chief Financial Officer and set out at the Schedule to TMP 1 and in the Annual Treasury Management Strategy will be used.

All dealing activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Management Strategy.

The Council may make loans to third parties for the purpose of capital expenditure as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). For further details see Schedule to TMP 1 (Credit and counterparty risk management)

### **4) Approved instruments for borrowing**

The statutory basis of the local authority's power to borrow is derived from the Local Government Act 2003. Essentially a local authority may 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”.

Local authorities may only borrow in sterling, except with the consent of the treasury. It is generally held that they have no powers to use financial derivatives such as interest rate swaps.

The main source of local authority borrowing is through Public Works Loans Board (PWLB) loans. Other borrowing sources include money market instruments, including low start or stepped interest rate structures, such as LOBOs (Lenders Option, Borrowers Option).

Local authorities may also borrow from each other.

Local authorities are required by the 2003 Act to determine and keep under review limits as to how much money they can afford to borrow. The Council’s Authorised Borrowing Limit as set in the Treasury Management Strategy and its Treasury Indicators must not be exceeded.

Regard must be had to the contents of TMP 9 (money laundering).

## **5) Borrowing methods and techniques**

### ***Long-term borrowing***

All long-term borrowing requires the express approval of the Chief Finance Officer, who will also sign any associated internal or external approval or authorisation documentation. The Chief Finance Officer has the delegated authority to take the most appropriate form of borrowing from approved sources.

Long-term borrowing may take the form of loans from the Public Works Loans Board (PWLB) or from the market, including LOBO loans.

PWLB loans are arranged directly with the PWLB, using their standard application procedures. Money market loans are arranged via a money broker.

Advice from the Council’s external treasury advisers will be sought and documented before entering into any long-term loan arrangements.

### ***Short-term borrowing***

The Council may take short-term deposits from other local authorities, arranged via a money broker, to facilitate the management of cash flow, and, under long established arrangements, from two local organisations.

The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

All borrowing activities will be carried out in line with the documented procedures and having regard to the conditions and criteria set out in the Schedules to the TMPs and the Treasury Management Strategy.

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

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### **1) Limits to responsibilities/discretion at executive levels**

#### ***Council***

The Council is responsible for:

- Receiving and reviewing reports on treasury management policies, practices and activities, including the setting and monitoring of the prudential and treasury indicators.
- Approval of the annual Treasury Management Strategy

#### ***Cabinet***

The Cabinet is responsible for the following:

- Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices
- Annual strategy/budget consideration and recommendation to Council
- Annual outturn report consideration and recommendation to Council
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment if the total contract value exceeds the OJEU threshold
- Annual setting of prudential and treasury indicators consideration and recommendation to Council
- Regular monitoring of prudential and treasury indicators consideration and recommendation to Council.

#### ***Audit Committee***

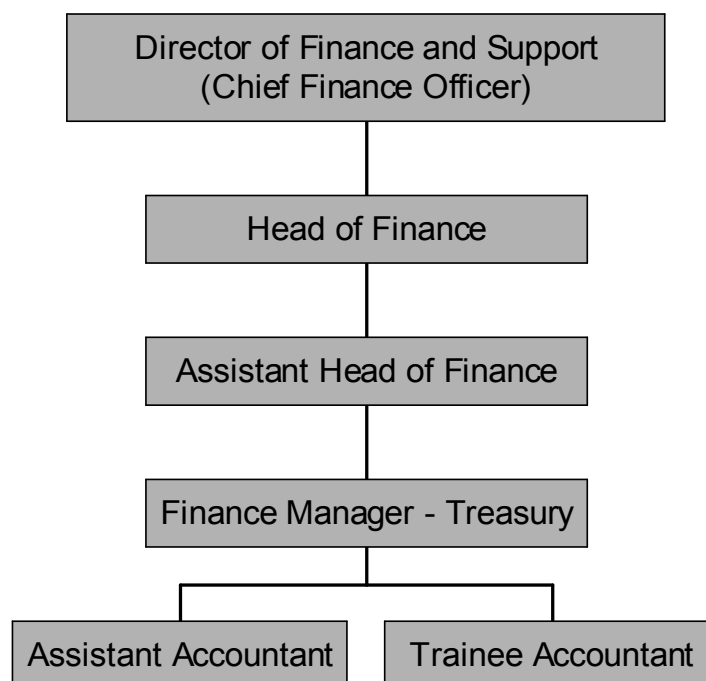
Audit Committee is the body responsible for scrutiny and will have responsibility for the review of all treasury management policies and procedures, the scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

### **2) Segregation of duties**

Segregation of duties is achieved by the allocation of treasury duties to specific posts within the finance structure, and by the authority levels set up on the Council's online banking system, HSBCnet, which is used to make electronic CHAPS payments and transfers between the Council's bank accounts. See the Schedule to TMP 1 for a full description of the levels of delegated responsibility and separation of duties designed to restrict opportunities for fraud, error and corruption.

### **3) Organisation chart**

The current structure of the Council's treasury division is set out below.



#### 4) Duties and responsibilities

Officers involved in treasury management are explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

##### ***Head of the Paid Service***

The Head of Paid Service is the Chief Executive, responsible for the corporate and overall strategic management of the Council as a whole. He has responsibility for establishing a framework for management direction, style and standards, and for monitoring the overall performance of the organisation.

The Chief Executive heads up the Management Board, of which the CFO is a member. Management Board meets on a weekly basis. Treasury reports feed into the corporate domain via the Management Board.

##### ***Monitoring Officer***

The Council's Monitoring Officer is the Borough Solicitor. The Monitoring Officer is responsible for promoting and maintaining high standards of conduct by both members and officers and therefore provides support to the Standards Committee. He is also responsible for the reporting of any actual or potential breaches of the law or maladministration to the full Council and/or Cabinet, and for ensuring that procedures for recording and reporting key decisions are operating effectively.

The Monitoring Officer, in conjunction with the Chief Executive and Section 151 Officer, has responsibility for advising Cabinet or the full Council on whether a decision is likely to be contrary to or not wholly in accordance with the Council's budget and policy framework.

The responsibilities of this post will include-

- Ensuring compliance by the Chief Finance Officer 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 Chief Finance Officer when advice is sought.

### ***Chief Finance Officer***

The Director of Finance and Support is the Council's Chief Financial Officer and the officer designated for the purposes of section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at Northampton Borough Council.

This post, as defined in Article 13 of the Constitution, has statutory duties in relation to the financial administration and stewardship of the authority. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Local Government Act 1972 (Section 151)
- Local Government Finance Act 1988
- Local Government and Housing Act 1989
- Local Government Act 2000
- Local Government Act 2003
- Accounts and Audit Regulations 2003
- Accounts and Audit Regulations 2006
- Accounts and Audit Regulations 2009

These statutory duties are set out in more detail in the Council's Financial Regulations.

The Council's Financial Regulations delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The detailed responsibilities are:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and to monitor compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes.
- Ensuring that the annual Treasury Management Strategy Report, the Mid Year Treasury Management report and the annual Treasury Outturn Report are submitted to Council via Cabinet (See Schedule to TMP 6),
- Reviewing the performance of the treasury management function and promoting value for money.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.



- Recommending or approving the appointment of external service providers (e.g. treasury advisors) in line with the approval limits set out in the Council's procurement rules.

The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. These powers have been delegated to officers as set out below.

The CFO and the Council's Monitoring Officer will ensure that the policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible in accordance with their statutory duties.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Monitoring Officer, the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

### ***Head of Finance/Assistant Head of Finance***

These posts have line management responsibility through the structure of the department. As such they may carry out delegated tasks as instructed by the CFO. This may include delegated Section 151 responsibilities in her absence. They also have managerial responsibility for the tasks carried out by the operational manager and the other operational treasury management staff.

The post holders attend the Council's monthly and quarterly treasury management meetings. (See Schedule to TMP 2)

### ***Operational Manager***

The Finance Manager (Treasury) (FMT) will operate as the Operational Manager and shall be responsible for:

- Implementing and ensuring compliance with the policies and procedures as set out in the TMPs and schedules, and the Council's Treasury Management Strategy.
- Reviewing treasury management policies and practices and submitting proposals for changes, as appropriate, to the CFO.
- Drafting, for the consideration of the CFO, all treasury management and prudential indicator reports to Cabinet and Council.
- Preparing an annual debt-financing budget for consideration, taking all relevant factors into account, and ensuring that the debt-financing budget is monitored as part of the Council's budget monitoring process, reporting all significant deviances to the CFO.
- Providing such reporting information, as determined by CFO, to enable her to fulfil her obligations as the Responsible Officer.
- Managing, on behalf of the CFO, the overall treasury management function ensuring that there is, at all times, an appropriate division of duties within the treasury team.
- Supervising treasury management staff.

- Ensuring that the treasury management team, and other staff undertaking treasury functions, receive such training as is required for them to undertake their respective functions.
- Holding monthly treasury management meetings including a review of performance data.
- Holding quarterly treasury management strategy meetings with the CFO
- Ensuring that sufficient information is available at all times to satisfy internal and external audit requirements, and liaison with internal and external auditors.

### ***Assistant Accountant (AA)***

The Assistant Accountant (AA) will operate as the Council's Treasury Manager and be responsible for:

- The arrangement and execution of all transactions.
- Adherence to agreed policies and practices on a day to day basis.
- Maintaining relationships with counterparties and external service providers.
- Ensuring that all loans received and investments repaid have been received into the Council's bank account.
- Entering and arranging approvals for all CHAPS payments via HSBCnet.
- Raising the payment documentation for all loan repayments, interest instalments and investments and ensuring that all loans are repaid on the due date and that interest payments are made on the appropriate date.
- Monitoring performance on a day to day basis
- Submitting management information reports to the Operational Manager and others.
- Keeping the Operational Manager informed of all matters relating to her responsibilities.
- Identifying opportunities for improved practices.
- Acting as an early warning system should it appear that timely action is required by the Council to take account of changes in the money markets, which may have been advised by brokers or advisers.
- Preparation of the necessary documentation (letters, loan receipts etc) and subsequent despatch to the borrower/lender as appropriate.
- Checking that confirmation documentation provided by brokers, lenders and borrowers corresponds to the initial documentation prepared as above.
- Entering the necessary information, from the documentation, on to the relevant electronic and hard copy records, ensuring that at all times, the databases are accurate and up-to-date.
- Preparing weekly and monthly reconciliations and performance data.

### ***Trainee Accountant (TA)***

The TA will provide clerical support to the treasury management function. This includes providing the back office function, which contributes to the separation of duties.

The post holder is responsible for:

- Back office checks as set out in the treasury procedure notes.
- Completing all relevant journal entries into Agresso.
- Preparing monthly reconciliations.

### ***Internal Audit***

The treasury management function will be the subject of an internal audit review on a regular basis as determined in the audit plan and full and free access to all records will be given.

This review will include:

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

### **5) Cover arrangements and business continuity**

An adequate number of nominated officers at an appropriate level are trained and set up to provide cover arrangements.

The Assistant Accountant maintains a schedule of lead and cover responsibilities for dealing, manual and system authorisation, back office checks, and system support. The schedule includes colour coding to demonstrate the segregation of duties to be practiced; this is backed up by system controls. The schedule is reviewed and updated or confirmed each month at the monthly treasury management meeting.

A business continuity plan is maintained by the FMT in the format prescribed by the Council in its Risk Management Strategy. This is backed up by detailed procedure notes. Both the plan and the procedure notes are reviewed and updated at least annually, or more frequently if circumstances change..

### **6) Dealing limits**

The Chief Finance Officer is responsible for formulating suitable criteria for assessing and monitoring the credit risk of investment counterparties and constructing a lending list comprising time, type, sector and specific counterparty limits. This is carried out with reference to the creditworthiness advice given by the Council's external treasury advisors. The criteria and limits are set out at TMP 1 (Section 1 Credit and counterparty risk management), TMP 4 (Section 2 Approved Instruments for Investment) and in the Treasury Management Strategy (Section 18 Counterparties).

## 7) **Approved brokers**

The Council currently uses the following money brokers:

- ICAP Europe Ltd
- Tullett Prebon (Europe) Ltd
- Tradition (UK) Ltd

It is considered good practice to use a minimum of two brokers; three is the number that it is considered by the Council to be operationally suitable given the number of investment transactions typically undertaken. The standard of service provided is monitored on an ongoing basis.

There is no direct charge to the Council for using money brokers; their fees are met through commission received from the counterparty to the investment.

## 8) **Policy on the taping of conversations**

All external treasury management calls related to the dealing process are currently tape-recorded. The tapes are kept for a minimum of one year. This policy will be subject to review, and the CFO will have the authority to make changes during the year.

## 9) **Direct dealing practices**

Direct dealing arrangements can be used as an additional tool to achieve further spreading of counterparty risk, to aid flexibility and to improve on interest rates offered.

Direct dealing arrangements are only set up with authorised counterparties. Prior to new arrangements being set up the counterparty is supplied with a list of officers authorised to deal on behalf of the Council and a copy of the Council's standard bank settlement instructions.

## 10) **Settlement transmission procedures**

Settlement transmission procedures are set out in the treasury management procedure notes.

## 11) **Documentation requirements**

Documentation requirements are set out in the Schedule to TMP 3, above, and the treasury management procedure notes.

## 12) **Management of third party funds**

### ***Section 106 Developer Funds***

The Council holds funds from developers (Section 106 funds) that are used to fund the Council's capital and revenue expenditure as per the terms of the individual legal agreements. In some instances the legal agreements provide for the funds to be returned to the developer if not used by the Council for the intended purpose after a given period of time. In cases where funds have to be returned, which are exceptional, interest is applied

at the rate set out in the legal agreement. The Council declares the maximum liability for interest payable at year-end as a contingent liability in its annual Statement of Accounts.

***Temporary borrowing arrangements***

Under long established arrangements the Council takes short-term deposits, treated as temporary borrowing, from two local organisations.

Formal agreements are in place for the management of these funds. Interest review dates are quarterly, and the interest rates are set at the Council's average rate for approved investments for the previous quarter, less 0.5% to cover administrative costs.

The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

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### **1) Council and Cabinet Reports**

A key recommendation of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Fully revised second edition 2009) is that the Council's Treasury Management Policy Statement should specify formal reporting arrangements by the responsible officer to full Council, to include at minimum annual reports both before, mid year and after the year end. These should include the Council's treasury management indicators.

Audit Committee is the body responsible for scrutiny and will have responsibility for the review of all treasury management policies and procedures, the scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

Council will receive, via Cabinet, the following reports:

#### ***Annual Treasury Management Strategy Report***

The Annual Treasury Management Strategy report will be submitted to Council before the start of the financial year, consisting of a review of the Council's approved clauses, Treasury Management Policy Statement and Practices and a strategy report on the proposed treasury management activities for the year.

The latter will incorporate:

- (i) The Capital Financing and Borrowing Strategy for the coming year including:
  - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
  - The Affordable Borrowing Limit as required by the Local Government Act 2003.
- (ii) The Investments Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

The Treasury Management Strategy will include the following elements:

#### **Capital Financing and Borrowing Strategy**

- Capital Financing
- Existing Borrowing
- New Borrowing
- Minimum Revenue Provision
- Borrowing Requirement
- Debt Rescheduling

- Long Term Interest Rates for Borrowing
- Sensitivity of Forecasts
- Borrowing Strategy
- Prudential Indicators
- Treasury Indicators
- Affordable Borrowing Limit
- Temporary Borrowing
- Overdraft Facilities

#### Investment Strategy

- Current Investment Portfolio
- Specified/ Non specified Investments
- Investment strategy;
- Counterparties
- Liquidity of Investments
- Bank Base Rate
- Short Term Interest Rates for Investments
- Sensitivity of Forecasts
- Prudential Indicators
- Treasury Indicators
- Treasury Management Advisers
- Investment Training

The annual report will also include:

- The proposed debt financing and debt management budget for the coming three years
- Demonstration of adherence to the Council's policy on reserves and balances
- Compliance with the requirement under the Local Government Finance Act 1992 to produce a balanced budget

#### ***Treasury Management Mid Year Report***

The annual Treasury Mid Year report will be submitted to Council by 31 January before the financial year-end. The report will cover:

- Treasury activities undertaken
- Variations (if any) from agreed policies and practices
- Treasury performance to 30 September
- Monitoring information

- Monitoring of treasury management and prudential indicators

### ***Treasury Management Outturn Report***

The annual Treasury Management Outturn report will be submitted to Council by 30 September following the financial year-end. The report will cover:

- Transactions executed and their revenue (current effects)
- The risk implications of decisions taken and transactions executed
- Compliance with agreed policies and practices and with statutory and regulatory requirements
- Treasury performance
- Compliance with the latest CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes
- Monitoring of treasury management indicators and prudential indicators

### ***Other reports to Cabinet and Council***

In addition to the above Cabinet will receive:

An annual prudential indicator setting report in line with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities (Fully revised second edition 2009)

Monthly debt financing budget monitoring information, which is prepared and presented to Cabinet as part of the Council's overall revenue budget monitoring cycle

### ***Reports to Audit Committee***

Audit Committee is the body responsible for scrutiny and will have responsibility for the review of all treasury management policies and procedures, the prior scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

## **2) Reports to the Chief Finance Officer**

The following performance reports will be submitted to CFO on a monthly basis along with the action points/minutes from the monthly treasury management meetings.

- Details of all outstanding loans, including name of lender, amount, period and interest rates.
- Details of all outstanding investments including name of borrower, amount, period and interest rates.
- Variations on actual daily bank balances against targets.
- Average monthly rates achieved on temporary investments, with base rate and average 7-day LIBID and LIBOR rates as comparators.
- Details of any variations (if any) from agreed policies/practices.



Notifications of changes to counterparty credit ratings are advised on a daily basis with, if applicable, a note of the value of any investments that the Council holds with the counterparty.

**TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

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**1) Budgeting arrangements**

Working within the overall context of the Council's Medium Term Financial Strategy, the FMT will prepare a three-year medium term financial plan, which will incorporate, for the following three years:

- The debt financing and debt management budget for the forthcoming year and provisional estimates
- The prudential indicators
- The treasury indicators

These will be submitted to Council for approval at their annual budget setting meeting preceding the start of the financial year in, respectively, the Annual Revenue Budget report, the Prudential Indicators report and the Treasury Management Strategy report.

The debt-financing budget will comprise:

- Interest and investment income
- Debt and other financing costs (including MRP)
- Recharges to and from the HRA
- Other recharges

The debt management budget will comprise:

- Staffing numbers and related costs (in the form of recharges)
- Premises and other administrative costs (in the form of recharges)
- Bank and overdraft charges
- Brokerages, commissions and other transaction related costs
- External advisers' and consultants' charges

**b) Accounting practices and standards**

All current accounting standards, regulations, practices and guidance pertaining to budgeting and accounting will be followed. This will include the CIPFA Code of Practice on Local Authority Accounting and the Service Reporting Code of Practice for Local Authorities (SeRCOP) as well as the treasury management specific documents referred to at the Schedule to TMP 1.

**c) Information requirements of external auditors**

Year-end figures and working papers on the Council's debt and investment portfolios will be provided as required for the Council's annual Statement of Accounts in line with the requirements of the latest CIPFA guidance, currently the CIPFA Code of Practice on Local Authority Accounting

The working papers provided will be of sufficient quality to include all relevant supporting information reasonably required by the external auditors, set out in a clear and logical manner and providing a clear audit trail.

Any other information or supporting documents reasonably requested by the Council's external auditors will be provided in a timely manner.

## **TMP 8 CASH AND CASH FLOW MANAGEMENT**

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### **1) Cashflow forecasts**

The Finance Manager (Treasury) will prepare high level cash flow projections annually, for the following three years, to prepare the debt financing budgets, as part of the Council's budget setting cycle.

The Assistant Accountant responsible for the day-to-day treasury function will prepare cash flow projections at detailed level for the current year, and, by 28 Feb each year, for the forthcoming year, updated on a daily basis.

The types of information to be included in the cashflow forecasts include the following:

- Details of all BACS runs
- Details of large cheques drawn
- Details of forthcoming Right-to-Buy, Shared Ownership and other property sales
- RSG and NDR receipts and/or payments (from annual schedule)
- Housing Benefits subsidy payments or receipts
- Details of local precepts and levies
- Details of loan interest and principal payable.
- Details of returns of previous investments

Comparisons of forecasts to actual figures will be undertaken in order to improve the accuracy of projections.

### **2) Overdraft arrangements**

The Council has a £200k overdraft facility with its bankers, HSBC Bank, for which an annual fee of £3,000 applies. The overdraft rate applicable to use of the agreed facility is 3.17% above base rate.

The overdraft facility is only used to cover unforeseen events; usage is kept to an absolute minimum and generally occurs only as a result of events outside of the Council's control; for example, failure by third parties to make agreed payments. The use of the overdraft facility is monitored on a daily basis against a performance target and reported monthly to senior managers through the corporate performance reporting framework.

### **3) Bank statement procedures**

Electronic bank statement extracts are downloaded daily from the online banking system (HSBCnet) in order to calculate the net cash position and take treasury management decisions on investments or short-term borrowing as necessary.

Electronic bank statements and transaction reports are downloaded and sent to IT for bank reconciliations using the automated Agresso process. The Council's bank reconciliations are undertaken by the Corporate Finance Team.

The Council also receives hard copies of all bank statements.

#### **4) Payment scheduling and agreed terms of trade with creditors**

The Council's normal settlement terms are 30 days in accordance with Best Value Performance Indicators (BVPI8). In the current economic climate, and to support local businesses, efforts are being made to make payment to NN postcodes within 10 days.

Payments are made by BACS wherever possible and payment runs are made daily. BACS is also used for other payment runs, including salaries/wages and housing benefit payments.

Bank details are requested from all new suppliers in order to keep cheque payments to a minimum to reduce costs. New bank details are verified with the supplier prior to use to prevent fraud.

#### **5) Procedures for banking of funds**

All income coming into the authority must be banked promptly. All payments received into the authority are banked via an E-Return. Individual departments that receive income hold paying in books that are specific for their individual area and submit separate banking returns for cash and cheque payments. E>Returns is a simple and effective tool for processing payments onto the Council's cash/cheque collection system, which feeds into Agresso, the Council's financial management system.

Northampton Borough Council has closed its cash offices. Customers wishing to make cash payments can still do so at the 100 Payzone and 26 Post Office locations throughout Northampton. The contract for third party payments is currently out to tender, with a planned go live date of 1 June 2011.

## **TMP 9 MONEY LAUNDERING**

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### **1) Wider context**

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering.

The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering, which apply to all persons in the UK in a personal and professional capacity. The Terrorism Act 2000 also contains provisions in respect of money laundering in the context of terrorist activity.

In December 2007 the government published the Money Laundering Regulations 2007, which replaced previous regulations of 2003. This defines money laundering as an act which falls within section 340(11) of the Proceeds of Crime Act 2002.

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the Proceeds of Crime Act 2002, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However as responsible public bodies they are expected to employ policies and procedures that reflect the essence of the UK's anti-terrorist financing and anti-money laundering regimes.

It is for individual organisations to evaluate the prospect of laundered monies being handled by them and to determine the appropriate safeguards to be put in place. It is the legal responsibility of every person engaged in treasury management to make themselves aware of their personal responsibilities. However CIPFA recommend that organisations bring them to their staff's attention and consider the appointment of a member of staff to whom they can report their suspicions.

### **2) Procedures for establishing the identity or authenticity of lenders**

The Council does not accept loans from individuals. All long-term loans are obtained from the PWLB, or from authorised institutions under the Financial Services and Market Act 2000. A register of these institutions is maintained by the Financial Services Authority (FSA) and can be accessed through their website at [www.fsa.gov.uk](http://www.fsa.gov.uk).

The Council may also take short-term deposits from other local authorities, to facilitate the management of cash flow, and, under long established arrangements, from two local organisations.

The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

### **3) Other NBC arrangements**

Any suspicions of money laundering must be reported immediately to the Head of Finance in his role as the Money Laundering Reporting Officer.

Training will be provided for treasury management staff on their responsibilities in respect of money laundering (See Schedule to TMP 10)

**TMP 10 STAFF TRAINING AND QUALIFICATIONS****1) Training and qualifications**

It is vital to the success of the treasury function that all members of the treasury management team, and all other individuals undertaking treasury roles, including those with responsibility for governance, are suitably qualified and receive sufficient training to enable them to carry out their functions efficiently, effectively and to a high standard. This has become increasingly evident in the context of the worldwide banking crisis and economic environment of the past two years, which has highlighted the growing complexity of treasury management in general, and its application to the public sector in particular.

Training can be achieved in a number of ways. Professional qualifications and specific internal and external training courses are evidently important. Work shadowing and on the job training are also valuable training tools and will be undertaken on an ongoing basis as required. Regular more formal in-house training will also be used. In addition general awareness training that comes from reading appropriate publications and electronic communications on a regular basis is essential to keep up to date with the external environment in order to contribute to the successful operation of the treasury management function.

The way in which the individual training needs of those involved in the treasury management function at the Council can be met are set out in the table below. Professional and AAT qualifications are in line with the requirements of the post. The level and nature of other training will be as appropriate to the role.

For the specific treasury responsibilities of each of those listed below, see the Schedule to TMP 5 (Section 4. Duties and responsibilities)

**Meeting training needs for treasury management responsibilities**

<b>Job Title</b>	<b>CCAB Qualified</b>	<b>AAT Qualified</b>	<b>External Seminars/ Workshops</b>	<b>In-house training</b>	<b>Reading</b>
Cabinet and Audit Committee Members	N/A	N/A	Yes	Yes	Yes
Chief Executive	N/A	N/A	Yes	Yes	Yes
Chief Finance Officer / S151 Officer	Yes	N/A	Yes		Yes
Head of Finance	Yes	N/A	Yes		Yes
Assistant Head of Finance	Yes	N/A	Yes		Yes
Finance Manager	Yes	N/A	Yes		Yes
Assistant Accountant		Yes	Yes	Yes	Yes
Cover for above		Yes		Yes	
Trainee Accountant		Trainee	Yes	Yes	
Cover for above		Yes		Yes	
System support				Yes	



## 2) Training Records

Training records will be kept of the training needs of those individuals with roles in the treasury management function, setting out their specific requirements and when and how they have been or will be addressed.

Areas to be covered by training (dependant on role) will include:

- Regulatory framework
- Governance
- Risk management
- Best practice
- Investment
- Borrowing
- Cashflow
- Performance management
- Prudential Indicators
- Budgeting and budget monitoring
- Money laundering
- Local financial systems

## 3) Statement of Professional Practice (SOPP)

Where the Chief Financial Officer is a member of CIPFA, there is a professional requirement for the post holder to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Similarly the Chief Financial Officer as a CCAB member and other staff as CCAB or AAT members are required to follow the professional standards and codes of conduct of their own professional bodies.

## **TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

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Details of existing contracts with service providers are set out in the paragraphs below.

### **1) Banking services**

A full retendering exercise for banking services was undertaken during 2009-10 under the ESPO (Eastern Shires Purchasing Organisation) Framework. The new contract was awarded to HSBC Bank Plc and commenced 1 October 2010 with an initial contract period of 3 years and an option to extend for a further year.

A period of parallel running with the Council's new bankers HSBC and the Council's former bankers, the Co-operative Bank plc commenced in Autumn 2010, with the majority of activity switching to HSBC during December 2010.

Accounts will be maintained with the Co-operative Bank until 6 months after the issue of the last Co-operative Bank cheque. Activity on the accounts in 2011-12 will be limited to the payment of valid cheques. The period will come to an end during June 2011, at which point the Council's accounts with the Co-operative Bank will be closed.

The costs of the banking service are provided for in the council's annual revenue budget. Payments to the Council's new bankers, HSBC, are invoiced on a monthly basis and paid by direct debit.

### **2) Money-broking services**

The Council currently uses the following money brokers

- ICAP Europe Ltd
- Tullett Prebon (Europe) Ltd
- Tradition (UK) Ltd

It is considered good practice to use a minimum of two brokers; three is the number that it is considered by the Council to be operationally suitable given the number of investment transactions typically undertaken. The standard of service provided is monitored on an ongoing basis.

There is no direct charge to the Council for using money brokers; their fees are met through commission received from the counterparty to the investment.

### **3) Treasury Management Advisers services**

The current supplier of service is Sector Treasury Services Ltd. The contract commenced 1 April 2010 with an initial contract period of three years to 31 March 2013 and an option to extend for a further year to 31 March 2014

## **Annex E**

The costs of the service are provided for in the Council's annual revenue budget. Payments under the contract are currently based on a fixed fee, payable half yearly in arrears. Additional services are available at rates specified in the contract.

## **TMP 12 CORPORATE GOVERNANCE**

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### **1) Arrangements for corporate governance**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is responsible for putting into place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council produces an Annual Governance Statement in its annual Statement of Accounts, which explains the corporate governance arrangements that the Council has in place and how it ensures compliance with these arrangements.

The Council adopted and implemented the key recommendations of the CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2001 and the 2006 update. Subsequently, on 25 February 2010, the Council adopted the updated wording of the 2009 second fully revised edition of the Code of Practice. This, together with detailed arrangements contained in the Schedules to TMP 1 to 11, is considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Documents subject to Cabinet or Council approval and available to the public on the Council's website include:

- Annual Treasury Management Strategy Report
- Mid year Treasury Management Report (from 2010-11)
- Treasury Outturn Report
- Prudential Indicators Setting Report
- Prudential Indicators Monitoring Reports
- Three Year Revenue Budget Setting Report
- Three Year Capital Programme Report
- Capital Strategy
- Annual Statement of Accounts.

### **2) Procedures for consultation with stakeholders**

The Council recognises that it is important to actively involve the community in the decision making process through consultation in order to provide good quality services and deliver them well.

The Council adopted a Community Engagement Strategy in 2008 and has introduced a Consultation Toolkit as a means to improve how it consults, engages and involves with the people and service users of Northampton.

### **3) External funds managed on behalf of others**

#### ***Section 106 Developer Funds***

The Council holds funds from developers (Section 106 funds) that are used to fund the Council's capital and revenue expenditure as per the terms of the individual legal agreements. In some instances the legal agreements provide for the funds to be returned to the developer if not used by the Council for the intended purpose after a given period of time. In cases where funds have to be returned, which are exceptional, interest is applied at the rate set out in the legal agreement. The Council declares the maximum liability for interest payable at year-end as a contingent liability in its annual Statement of Accounts.

#### ***Temporary borrowing arrangements***

Under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements were set up with these organisations from 1<sup>st</sup> April 2009. These contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%
- Quarterly review of interest rates
- Withdrawal notice periods of 7 days
- Termination notice of 7 days

The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.