



**OVERVIEW SELECT COMMITTEE
COUNCIL**

**7 FEBRUARY 2019
20 FEBRUARY 2019**

TREASURY POLICY

Report of the Director of Finance

1. Purpose of Report

- 1.1 This report proposes a framework for the governance of the Council's borrowing and investments.
- 1.2 It updates the framework approved by Council in 2012 to reflect revised professional and statutory guidance.

2. Summary

- 2.1 Treasury management is the process that ensures the Council always has enough cash to make the payments that are necessary for its operations, and this involves both borrowing and investment.
- 2.2 The treasury policy is a framework document stating how the activity is governed. It is supported by an annual strategy (the strategy for 2019 is elsewhere on your agenda).

3. Recommendations

- 3.1 Members of Overview Select Committee are recommended to note the report and make any comments to the Director of Finance as they wish, prior to Council consideration.
- 3.2 The Council is recommended to approve the treasury policy appended to this report.

4. **Overview of Treasury Management**

- 4.1 There are two main elements to treasury management.
- 4.2 The first element is **borrowing money** to finance capital expenditure. Most capital spending is now funded by capital grant, but we still have historic borrowing dating from years when the Government chose to use borrowing approvals to support capital.
- 4.3 The revenue budget approved by the Council each year includes provision for the interest payable on this borrowing. It also includes a provision for repaying the borrowing over a number of years (broadly speaking, over the economic life of the assets acquired).
- 4.4 The second element is **cash management** which involves managing the Council's investments to ensure the optimum amount of money is held in our bank account on a day-to-day basis – so that there is enough money to cover payments made on the day, but no more (cash held in the bank account earns virtually no interest).
- 4.5 The Council has substantial investments but these are not “spare cash”. Whilst there are links to the budget process, these sums do not form part of the budget. To the extent that the Council has money it can spend, this is reflected in the budget report.
- 4.6 There is a provision for interest earned on investments in the Council's revenue budget.
- 4.7 Treasury activities are governed by the treasury policy which this report updates. The policy specifies how borrowing and investments should be organised, the responsibilities of officers, and the limits placed on officers' discretion to act without further approval. It should be noted that as decisions on borrowing individual sums have to be taken very quickly, this is delegated to officers within a framework specified by this policy. Treasury operations are subject to retrospective member scrutiny. The proposed policy is shown at the appendix to this report.
- 4.8 An annual treasury strategy specifies how borrowing and investment will be carried out.
- 4.9 A twice-yearly report is submitted to Overview Select Committee reviewing the treasury activity undertaken in the year.
- 4.10 The treasury policy comprises a treasury management policy statement (TMPS) and 12 “treasury management practices” (“TMPs”).
- 4.11 The TMPS defines the overall objectives of the treasury management function, and emphasises the pursuit of optimum performance and the effective control of risk. The 12 TMPs expand upon this and, together with supporting schedules (prepared by the Director of Finance), establish a comprehensive framework

for the management and control of borrowing, investment and other treasury functions.

5. **Financial and Legal Implications**

5.1 This report is solely concerned with financial issues.

5.2 The Council is required as a matter of law to pay due regard to CIPFA's Code of Practice on Treasury Management and statutory guidance issued by MHCLG. Other than this, no specific legal issues are raised by this report.

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PROPOSED TREASURY POLICY

1. Treasury Management Policy Statement (TMPS)

1.1 The overall aim of the Council's treasury activity is to minimise the Council's net financing costs, whilst maintaining an appropriate level of liquidity and taking a prudent approach to risk.

1.2 The Council defines the policies and objectives of its treasury management activities as follows:-

"The management of the authority's cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3 The Council regards the successful management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured.

1.4 This Council is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques.

1.5 The Council will create, and maintain, a treasury management policy (i.e. this document). This will be supported by suitable treasury management practices (TMPs, shown below), setting out the manner in which the Council will seek to achieve these policies and objectives, and prescribing how the Council will manage and control those activities.

1.6 The Council will receive reports on an annual strategy in advance of each year, and the Overview Select Committee (OSC) will receive twice yearly reports on actual performance.

1.7 The Council delegates responsibility for the execution and administration of treasury management decisions to the Director of Finance who will act in accordance with this policy statement and TMPs; and CIPFA's Standard of Professional Practice on Treasury Management. Monitoring of the function will be undertaken by the OSC.

1.8 In practice the following matters are delegated to the DoF:

- Decisions on borrowing, investments, leasing and other forms of finance;
- Renegotiation and premature repayment of loans;
- Entering into associated contracts;
- Selection of treasury advisors;
- Selection of the money market brokers;

- Selection of leasing brokers used, if any;
- Selection of counterparties required for treasury purposes;
- The allocation of responsibilities and organisation of staffing;
- Determining the procedures to be followed by staff involved in treasury management, including internal controls and safeguards;
- Determining the accounting treatment of treasury decisions;
- Determining a list of institutions from whom the Council may borrow money;
- The preparation of schedules to TMPs, to serve as working documents for day-to-day use;
- Determining the list of institutions (the “lending list”) to whom the Council will lend or invest, and for what period, applying the criteria established by the Council’s treasury management strategy.

2. **Treasury Management Practices**

2.1 As part of the Treasury Policy, the Council is asked to approve 12 treasury management practices.

TMP1	- Risk Management
TMP2	- Performance measurement
TMP3	- Decision making and analysis
TMP4	- Approved instruments, methods and techniques
TMP5	- Organisation, clarity and segregation of responsibilities and reporting arrangements
TMP6	- Reporting arrangements and management information arrangements
TMP7	- Budgeting and accounting arrangements
TMP8	- Cashflow management
TMP9	- Money laundering
TMP10	- Staff training and qualifications
TMP11	- Use of external service providers
TMP12	- Corporate Governance

3. **TMP1 – Risk Management**

3.1 The DoF will have paramount regard to the risk associated with treasury management decisions and will ensure systems exist to control this risk.

3.2 The DoF will make sure we have enough money available immediately to meet day-to-day obligations.

3.3 Borrowing and investment strategy will be undertaken with regard to the implications for the Council’s budget, whilst not missing opportunities to save money over the longer term.

3.4 The DoF will keep a list of people the Council will invest with (mainly by lending money), and limits for each. These “counterparty lists” will reflect a prudent

attitude towards organisations with whom funds may be deposited. The counterparty policy will be established within the annual treasury strategy.

- 3.5 The DoF will ensure the Council complies with legal requirements. We will demonstrate such compliance, if required to do so, to all parties with whom the Council deals. In framing the counterparty policy, the DoF will ensure that there is evidence of counterparties' powers, authority and compliance with regulatory requirements.
- 3.6 The DoF will use systems to prevent the risk of fraud or loss and will maintain contingency management arrangements.
- 3.7 The DoF will ensure the Council is not exposed to big losses if interest rates move the wrong way.
- 3.8 The DoF will make sure we don't have to borrow too much all at once, and will actively manage the refinancing of maturing loans and other financing arrangements.
- 3.9 The DoF will manage exposure to exchange rate risk, inflation risk and price risk.
- 3.10 Members are asked to note that the avoidance of all risk is neither appropriate nor possible and a prudent balance will need to be struck between avoiding risk and maximising returns.

4. **TMP2 – Performance Measurement**

- 4.1 The Council will continually monitor treasury management performance.
- 4.2 We will evaluate borrowing and investment decisions by reference to external data, which may include:-
 - i) Benchmarks derived from financial market data;
 - ii) Benchmarks provided by the Council's treasury advisors.
- 4.3 The Council places high value on the use of independent treasury advisors. It looks to such advisors to present an independent view of the Council's treasury investments and borrowings.
- 4.4 The DoF will obtain a comprehensive annual review of the Council's treasury position, prepared by independent treasury advisors. The outcome will be reflected in the six-monthly reviews of treasury management activities reported to OSC.

5. **TMP3 – Decision-making and analysis**

5.1 The DoF will maintain full records of treasury management decisions, and of the processes and practices applied in reaching those decisions.

6. **TMP4 – Approved instruments, methods and techniques**

6.1 The Council will only use **borrowing instruments** from the following approved list (although many of these are not currently used):-

1. Public Works Loans Board
2. European Investment Bank
3. Stock Issues
4. Market Long-Term Loans
5. Market Temporary Loans (up to 364 days)
6. Local Temporary Loans
7. Local Bonds
8. Negotiable Bonds
9. Commercial Paper
10. Medium Term Notes
11. Bank Overdraft
12. Operational and Finance Leasing

6.2 Permitted **investment instruments** will be specified in the annual treasury strategy.

6.3 The DoF may determine that other instruments can be used when, in substance, they are similar to those already authorised. Where an instrument is complex, appropriate advice will be obtained including advice about any risks posed.

6.4 The Council is classified as a professional investor for the purposes of the regulatory framework of “MIFID II”. This means that it has access to a wider range of investments than would otherwise be the case.

7. **TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

7.1 The DoF will make sure the duties of staff are properly organised and written down.

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

7.3 If the DoF intends to depart from these principles (for example due to staff sickness) additional monitoring and reporting arrangements will be put in place.

7.4 The DoF will ensure that there are clear written and communicated statements of the responsibilities of each role, and the arrangements for absence cover. Delegation arrangements will also be documented.

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

8. **TMP6 – Reporting requirements and management information arrangements**

8.1 Regular reports will be taken to members. As a minimum, the following reports will be prepared:-

i) An annual report to the City Mayor and Council on the strategy to be pursued in the coming year;

ii) A twice annual report to OSC on the performance of the treasury management function, on the effects of the decisions taken in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy or strategy.

9. **TMP7 – Budgeting and accounting arrangements**

9.1 The costs of treasury management will be reflected in the Council's normal budgeting arrangements.

10. **TMP8 – Cashflow Management**

10.1 The DoF will manage the council's cash holdings in their entirety. Cash flow projections will be prepared regularly and the DoF will ensure that these are adequate to ensure that the Council always has sufficient funds to meet its obligations.

11. **TMP9 – Money Laundering**

11.1 The Council may become the subject of an attempt to involve it in the laundering of money. The DoF will maintain procedures for verifying and recording the identity of counterparties and for reporting suspicions, and will ensure that staff are properly trained.

11.2 A policy to prevent the Council's unwitting involvement in money laundering has been established.

12. **TMP 10 – Staff training and qualifications**

12.1 The DoF will use properly trained staff.

12.2 The core professional requirement for senior staff leading the treasury function is a professional accountancy qualification. The cash management officer shall hold a diploma (level 4) from the Association of Accounting Technicians or

equivalent. Ongoing training and development on specific matters will be provided by an appropriate blend of distance learning (study of briefing notes etc); and organised courses, conferences and seminars.

- 12.3 Elected members will be offered training and development. Members of OSC, in particular, will be offered presentations that complement the reports and decisions they scrutinise.

13. **TMP11 – Use of external service providers**

- 13.1 The Council will use external experts, where this is sensible. When external experts are used, the DoF remains responsible for the treasury management function.

14. **TMP12 – Corporate Governance**

- 14.1 Treasury management activity will comply with our usual corporate governance principles. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.