

**Cabinet 22 November 2006 - Governance Arrangements for the  
Internal Management of Funds.**

**Treasury Management Practices (TMP's)**

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Last updated & checked.	<b>Annexes to Treasury Management Practices</b>	
July 2003 08/11/06	A	Treasury Policy Statement
Feb 2006 08/11/06	B	Treasury Management Strategy Statement and Investment Strategy Statement.
Nov 2006 08/11/06	C	Member Decision Making Structure
June 2006 08/11/06	D	Approved lending list
Sept 2005 22/09/05	E	Sector advice of a change in counter party rating
Sept 2005 08/11/06	F	Procedure for updating the Approved Lending List
July 2003 08/11/06	G	Extracts from the Constitution, Standing Orders and Financial Rules
June 2006 08/11/06	H	Fidelity Guarantee
April 2005 08/11/06	I	Daily Procedures
Sept 2006 01/10/06	J	Contact and Procedure Details
Oct 2006 08/11/06	K	Internal performance measurement and indicators
Mar 2006 25/10/06	L	Annual Report
Nov 2006 01/11/06	M	Annual cash flow projection
Nov 2006 08/11/06	N	Officer Organisational Chart and Decision Making Structure
Oct 2006 01/09/06	O	Quarterly report to the F&PAB
July 2006 01/07/06	P	Reconciliation of investments to the nominal ledger
Nov 2006 08/11/06	Q	Anti Money Laundering Policy
Nov'ber 06 08/11/06	R	External Providers

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#### 1.0 Introduction

CIPFA introduced a revised Code of Practice for Treasury Management titled *Treasury Management in Public Services: Code of Practice* (the Code) on 1 April 2002 and has revised this on a number of occasions, the last being in 2005. In order to comply with the original and updated Code we had to:

- Adopt the four clauses (including the four key recommendations) set out in the Code;
- Adopt a Treasury Management Policy Statement in the suggested format; and
- Adopt the twelve recommended Treasury Management Practices (TMPs).

**Annex A** shows the report submitted to Cabinet to adopt the CIPFA Code of Practice on Treasury Management in the Public Services and the Treasury Policy Statement.

#### 2.0 Definition of Treasury Management

Treasury management is defined by the Code as *“The management of the organisation’s cash flows, its banking, money market and capital market transactions, the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.”*

#### 3.0 TMP1 Risk Management

The Council will achieve the objectives set by the prudent use of its approved financing and investment instruments, methods and techniques. These will, primarily create stability and certainty of costs and revenues, but at the same time retain a sufficient degree of flexibility to take advantage of potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

#### 3.1 Liquidity

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

The Council operates a cash flow forecasting model that allows accurate planning for treasury management (see section 10 below). The Council aims for a zero position in the Council’s bank accounts overnight.

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The Council has access to the following to assist with liquidity:

- An overdraft facility with the National Westminster Bank of £0.5m to cover unforeseen expenditure.
- Access to the London Money Market, banks and other local authorities – used when the cash flow forecast is predicting a surplus or an overdrawn position

In addition the Council has access to the following investment accounts that allow instant access – increasing liquidity:

- Cheque account (Bank of Scotland)
- BasePLUS account (Bank of Scotland)
- Special Interest Bearing Account (National Westminster Bank/RBOS)
- Money Market Funds (Morley and Global Liquidity Funds)

### 3.2 Interest Rate

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided within the annual budget and the medium term financial strategy.

In accordance with the requirements of The Prudential Code - Indicators 14, the Council sets the proportion of the total amount of borrowing which can be taken either short term or at variable rates. This limit is set in the annual Treasury Management Strategy and Investment Management Strategy Statement. The relevant sections of those Strategies are set out at **Annex B**.

The Council has a comprehensive decision-making structure, as is shown at **Annex C and N**. The structure ensures that officers at all levels of the treasury management function are informed about the strategic direction of the function, including views on interest rates.

### 3.3 Exchange Rate

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

It is not expected that the Council will be exposed to significant amounts of foreign exchange, but when it does receive foreign currency the policy is to bank it and accept the rate that the bank offers.

Foreign payments are made either by foreign draft (dealt with by the payments section) or electronically by CHAPS, as soon as they are due. The exchange rate offered by the bank on the day of clearing is accepted.

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Should the volume of foreign currency increase then these policies will be reviewed.

#### 3.4 Inflation

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on treasury management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

The Council is aware of the effects of inflation and the effects that it can have on the treasury management function. The Council will take this into account, along with any changes in Government policy, when reviewing its Medium Term Financial Strategy and in any assumptions it makes when making strategic decisions.

#### 3.5 Credit and Counterparty Policies

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited.

The Council operates an Approved Lending List as is shown at **Annex D**. This is based on Fitch IBCA ratings and counter party group and sector limits. The Council, in conjunction with its Treasury Adviser currently Sector, maintains this counter party list in hard copy form and on the Sector Website at <http://www.sector-group.com/>

The Treasury Adviser is required to inform the Council of any movements in ratings by e-mail. (**See Annex E** for an example). The process for amending the Approved list is set out at **Annex F**.

Any necessary temporary borrowing the Council will only be undertaken with counter parties that qualify as authorised institutions under the Financial Services Act 2000 (FSMA2000). The following web page allows the user to enter the counterparty and ascertain whether they are an authorised institution: <http://www.fsa.gov.uk/register>

In addition to the authorised counter parties mentioned above, borrowing from other local authorities and government agencies is permitted.

#### 3.6 Refinancing

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer

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terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counter parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

The Director of Finance will decide upon the source of long-term finance - see Section 6.0. The decision as to the source of finance will be based on the following:

- Asset specific – the source that best matches the asset (e.g. leasing, PFI, etc)
- General – either PWLB or market loans

### 3.7 Legal and Regulatory

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

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

The legislation that currently prescribes Treasury Management activities is:

- The Local Government Act 2003; and
- The associated CIPFA Prudential Code

The Council will ensure that all members of staff within the treasury management function are familiar with the requirements above legislation.

The Council employs treasury management consultants (Sector) who provide advice on existing and proposed changes to the legislative regime.

In addition to the external Legislation / Regulations mentioned above the Council is also regulated internally by its Constitution, Standing Orders and Financial Rules. Extracts of these that are relevant to treasury management are shown at **Annex G**.

### 3.8 Fraud, Error and Corruption, and Contingency Management

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The Council will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends.

The Council has a Fidelity Guarantee policy, details of, which are shown at **Annex H**.

The procedures that apply to the treasury management function are detailed throughout this document, specifically at **Annex I**.

The need to ensure business continuity is addressed via a specific plan for the treasury management activity. This includes emergency contact details for key staff and is replicated at **Annex J**.

### **3.9 Market Risk Management**

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

The Council is aware of the implications of using investments whose capital value may fluctuate (e.g. gilts, CD's, corporate bonds etc). The Council is able to use such instruments via its Fund Manager(s), but does not use them for internal fund management. Should this practice change then these risks will be re-evaluated.

### **4.0 TMP2 Best Value and Performance Measurement**

#### **4.1 Best Value**

The Council is committed to the pursuit of best value in its treasury management activities. The treasury management function has not been identified as requiring a formal review.

#### **4.2 Performance Measurement**

The treasury management function will be subject to ongoing analysis of the value it adds in support of the Council's stated service objectives (the Corporate Aims). It will be subject to regular examination of alternative methods of service delivery, of the availability of fiscal or grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria to be set out in the Council's Treasury Management manual.

The Council uses the following benchmarks for measuring the performance of the treasury management function:

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- ∇ Internally – the key performance Indicators (September 2006 shown at **Annex K**) are:
  - Actual average rate of return v 7 day LIBID as for externally managed investments;
  - Calculated on a rolling 12 month basis;
  - Reported to each meeting of the Financial Services Treasury Management Team; and
  - Reported to the Finance and Property Advisory Board quarterly.
  
- ∇ Externally
  - Compounded 7 day Libid per the Financial Times; and
  - Quarterly cash fund manager performance statistics for the LA cash management sector provided by the Council's treasury advisors - Sector Treasury Management.

#### 5.0 TMP3 Decision-Making Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The Council's decision-making processes are reproduced at **Annexes C and N**. These Annexes show which Members and officers are involved at each level and what the output is. The various outputs from the decision making process are shown below:

- Revenue Budget & Capital Programme, incorporating Prudential Code limits and Treasury Management Strategy – approved by Council (see **Annex B**)
- Annual Out turn Report (see **Annex L**)
- Annual Cash Flow (see **Annex M**)

#### 6.0 TMP4 Approved Sources of Finance

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques listed below, and within the limits and parameters defined in TMP1 Risk Management.

Within the 'normal' parameters of treasury management the following are approved sources of finance:

- Other local authorities
- London Money Market
- Overdraft facility



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The authority approves the following sources for raising finance for long-term projects:

- Private Finance Initiative
- Public Works Loans Board
- London Money Market
- Capital Receipts

Other approved sources of finance that are available to the Council are:

- Grants (revenue and capital)
- Precepts

Under the Local Government Action 2003 the Council is required to set a series of prudential indicators covering a period of three years and to revise these limits each year taking into account both historical and future actions. The limits set are set out in **Annex B**.

The source of funding and its use is decided by the following officers:

- Temporary cash-flow – The Exchequer Services Manager
- Capital or Revenue purposes – The Director of Finance

## 7.0 TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

### 7.1 Organisation, Clarity and Segregation of Responsibilities

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly recorded in accordance with TMP6 "Reporting requirements and management information arrangements", and the implications properly considered and evaluated.

The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the

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arrangements for absence cover. An organisational chart is shown at **Annex N**. The organisational chart shows the following:

- Principles and practices concerning segregation of duties
- Post titles and hierarchy
- Main area of responsibility within treasury management
- Reporting lines
- Absence / cover arrangements

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

The delegations to the Director of Finance in respect of treasury management are as set out in this document. The Director of Finance will fulfil all such responsibilities in accordance with the Council's Policy Statement and Treasury Management Practices (TMPs) and the CIPFA Standard of Professional Practice on Treasury Management.

#### 7.2 Dealing Arrangements

Before carrying out any of the functions associated with Treasury Management, officers are made aware of the contents of the TMPs and the associated annexes. The necessary procedure notes are shown at **Annex I**.

Should there be any problems with contacting intermediaries, obligors or bankers (i.e. power failure); emergency contact numbers are shown at **Annex J**.

The Council is aware that the Non-Investment Product Code (NIPs) has replaced the London Code of Conduct – a copy of NIPs can be found at the following Internet address:

<http://www.bankofengland.co.uk/markets/nipscode.pdf>

#### 8.0 TMP6 Reporting

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

The Director of Finance will prepare the following reports for Cabinet:

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- An annual report on the strategy and plan to be pursued in the coming year is currently included as part of the annual Revenue and Capital Budget process, shown at **Annex B**.
- An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and treasury management practices. The latest report is shown at **Annex L**.
- During the year the performance of the treasury management function will also be reported on a quarterly basis to the Finance and Property Advisory Board and an example of this is shown at **Annex O**.

### 9.0 TMP7 Budgeting, Accounting and Audit Arrangements

The Director of Finance will prepare, and the Council will approve, and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP2 Best Value and Performance Management, and TMP4 Approved Investments, Methods and Techniques. The Director of Finance will exercise effective control over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being, details of which are explained within this document.

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

### 10.0 TMP8 Cash and Cash Flow Management (including Banking, Bank Reconciliation Debtors and Creditors)

#### 10.1 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes.

The Council uses Excel to manage the Council's cash flow. An example of the Council's cash flow is shown at **Annex M** and can be accessed via

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[\\GIBSON\\_5\DATA1\DATA\FS\Exchg\Share\TreasMgmt\daily\CashFlow0607\Workings.xls](#).

The cash flow is prepared on a financial year basis, i.e. April through March. It is prepared in February / March for the coming financial year. The process starts with the current cash flow and is then updated for known variations and differences as they occur.

#### 10.2 Banking, Bank Reconciliation, Debtors and Creditors

##### 10.2.1 Banking and Bank Reconciliation

Monthly bank reconciliations are completed by the Senior Exchequer Assistant DF0407. The Exchequer Services Manager and the Chief Accountant are required to sign these off.

Monthly treasury management reconciliation's are completed by the Senior Exchequer Assistant DF0402 and signed off by the Exchequer Services Manager as follows:

- **Investment and borrowing principal** – the ledger system is reconciled to the Excel file [..\daily\Cash07.xls](#) . An example of the reconciliation is shown at **Annex P**.
- **Investment and temporary borrowing interest** – the ledger system is reconciled to [..\daily\Cash07.xls](#). An example of the reconciliation is shown at **Annex P**.

##### 10.2.2 Debtors

The cash flow forecast includes an estimate of expected income based on historical and current information together with any items that can be scheduled for a specific date.

Exchequer is made aware of direct debits two days prior to their receipt and is authorised to terminate them if service authorisation is not received on time. Cheques and other items clearing are included in the figures downloaded from Bankline on a daily basis.

##### 10.2.3 Creditors

The cash flow forecast includes an estimate of creditors based on historical and current information. Initially this includes capital and revenue and is averaged over 52 weeks. However, as the year progresses the figures are refined to reflect changes in patterns and programmes.

The actual payment for creditors, refunds and housing benefits are notified to the Senior Exchequer Assistant DF0402 at least two days in advance of payment

BACS creditor and housing benefit payments are made on a weekly basis.

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Cheques clearing from accounts are included in the figures downloaded from the banks on a daily basis.

#### 11.0 TMP 9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter parties and reporting suspicions, and will ensure that the staff involved in this are properly trained.

The Council will use credit ratings as a mechanism of restricting investment counter parties to those of high repute and FSA authorisation as a means of ensuring that borrowing counter parties are also of high repute (see Section 3.5)

Any suspicion of money laundering must be immediately reported to the Exchequer Services Manager acting in the role of "responsible officer" as defined by the Money Laundering and Proceeds of Crime Act 2004. That officer will in turn advise the Director of Finance, the Chief Executive, the Chief Internal Auditor, the Chief Solicitor in his role as Monitoring Officer, and the regulatory authorities.

#### 12.0 TMP 10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

In order to achieve the above the Director of Finance will ensure that the following forms of training are available to all officers involved in the treasury management function:

- **Internal**
  - § Job shadowing
  - § Job specific training
  - § Monthly meetings
  - § Published guidance via these TMPs.
- **External**
  - § Seminars
  - § Courses where applicable
  - § External publications

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§ Internet – Sector and Bank of England websites amongst others.

#### 13.0 TMP 11 Use of External Service Providers

The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and where necessary, that a spread of service providers is used to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance. Details of the current arrangements are attached at **ANNEX R**.

The Council uses external providers in the following areas of treasury management:

- Transactional and Investment Banking
  - RBOS - National Westminster Bank
    - § 6 year contract from 01 April 2003
    - § Re- tender / Market testing due in 2008
  - Bank of Scotland
    - § Base rate current account.
    - § BasePlus investment account.
- Brokers
  - Prebon
  - Sterling
  - Garban

These relationships are reviewed on an ongoing basis
- Consultants
  - Treasury Management Advisors
    - § Sector Treasury Services Ltd
    - § 4 year contract
    - § Expires July 2010
- Fund Managers
  - Investec Asset Management
    - § Cash fund manager.
    - § Open ended contract terminable at one months notice.

Contact details for the above organisations are shown on the Exchequer intranet site and at **Annex J**.

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**14.0 TMP 12 Corporate Governance**

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

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

In addition to the above, the Director of Finance will make the Statement of Accounts available for inspection to the general public and other stakeholders for the statutory period. This gives the stakeholders the opportunity to scrutinise the Statement of Accounts, which will include the treasury management function.

**15.0 Review of Treasury Management Manual**

This manual will be updated on an ongoing basis; this will enable it to be used both as a reference document and as a day-to-day working document.

In addition, an overall review will be carried out once a year to ensure that any practices that have changed are fully documented.

**These practices and the attached Annexes were last updated in November 2006.**

**Director of Finance**