



Oadby & Wigston
BOROUGH COUNCIL

Treasury Management Policy

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Head Of Finance Approval	

OADBY & WIGSTON BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY – Appendix 1

Introduction

The CIPFA code of practice Treasury Management in the Public Services was produced to assist all forms of public bodies with their treasury management strategies. In the publication of this policy the Council formally adopts the CIPFA code of practice as part of its standing orders and financial regulations.

Three Key Elements to the Policy

1. The Definition Of The Treasury Activities Of The Council

Oadby & Wigston Borough Council defines its treasury management activities as “The management of the organisation’s cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. The role of Risk Management in the Treasury Policy

Oadby & Wigston Borough Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3. Achievement of Business and Service Objectives

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

Treasury Management Practices (TMP)

TMP1 Risk Management

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will report annually on their adequacy and suitability. They must also report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in relation to a failure in the policy.

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

1. Liquidity Risk

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

2. Interest Rate and Inflation Risk

The Section 151 Officer, on behalf of the Council, will manage its exposure to fluctuations in interest rates and inflation with a view to containing its interest costs or securing its interest revenues as an integral part of its Treasury Strategy and Plan.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of income but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above is subject at all times to the considerations and if required, approval of any policy or budgetary implications.

3. Credit and Counterparty Risk

Oadby & Wigston Borough Council regards a prime objective of its treasury management activities to be the security of the principal sums invested. Accordingly, we will ensure that its counterparty list and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4, and listed in the schedule to this document.

4. Refinancing Risk

Oadby & Wigston Borough Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies raised are managed, with a view to obtaining offer terms for renewal or refinancing if required. All arrangements should be competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time of transaction.

5. Legal and Regulatory Risk

Oadby and Wigston Borough 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. It will ensure that there is evidence of counterparties' powers, authority and compliance in respect of transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

6. Fraud, Error and Corruption, and Contingency Management

Oadby and Wigston Borough 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 enable risk to be minimised.

7. Market Risk

Oadby and Wigston Borough 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 itself from the effects of such fluctuations.

TMP 2 Best Value and Performance Measurement

Oadby and Wigston Borough Council is committed to the pursuit of best value in its treasury management activities. Accordingly, the treasury management activities will be the subject of ongoing analysis of the value it adds in support of the organisations stated objectives.

TMP 3 Decision-making and Analysis

Oadby and Wigston Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions. Both for the purpose 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 issues, processes and practices taken account of when reaching decision are detailed in the schedule.

TMP 4 Approved Instruments, Methods and Techniques

Oadby and Wigston Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule, and within the limits and parameters defined in TMP1.

TMP 5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

Oadby and Wigston Borough Council considers it essential, for the purpose of the effective control and monitoring of its treasury management activities, for the reduction of the risk or 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 clarity of treasury management responsibilities.

That there is a clear distinction between the Section 151 Officer charged with setting treasury management policies and those officers charged with carrying out those policies.

If and when the organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6.

TMP 6 Reporting Requirements and Management Information Arrangements

Oadby and Wigston Borough Council will ensure that yearly reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes resulting from regulatory, economic, market or other factors.

Council will receive:

- Annual Treasury and Investment Strategies and Plan Report for the coming year.
- An annual Treasury Management Performance Report to include any non-compliance with the Council's Treasury Management Policy and TMPs.

TMP 7 Budgeting, Accounting and Audit Arrangements

Oadby and Wigston Borough Council will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force.

The Council will ensure that the costs involved in running the treasury management function will pertain to best value.

The Council will ensure 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 to fulfil their roles.

TMP 8 Cash and Cash Flow Management

All monies in the hands of Oadby and Wigston Borough Council will be under the control of the Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 – Liquidity Risk.

TMP 9 Money Laundering

Oadby and Wigston Borough 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, we maintain procedures for verifying and recording the identity of counterparties and reporting suspicions.

TMP 10 Staff Training and Qualifications

Oadby and Wigston Borough 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. We will therefore seek to ensure that individuals are provided with training as required and/or identified by the EDI process.

TMP 11 Use of External Service Providers

Oadby and Wigston Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. In doing so we will ensure that the cost and benefits are considered. We will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one company. Where services are subject to formal tendering standing orders will be applied.

TMP 12 Corporate Governance

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

We have adopted and implemented the key recommendations of the Code, and this together with the other arrangements detailed in the schedule are considered vital to the achievement of proper corporate governance in treasury management. The Section 151 Officer will monitor and if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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

TMP 1 Risk Management

TMP 2 Best Value and 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 Staff Training and Qualifications

TMP 12 Corporate Governance

TMP 1 RISK MANAGEMENT

1 Liquidity

It will be the function of the Section 151 Officer to calculate from cash flow forecasts the extent of any surplus cash available for investment. There will be no requirement of the Council to maintain a surplus cash balance in the bank account although such surpluses may occur from time to time. The intention should always be to maintain a nil cleared balance as far as possible.

In the event of the Council having to borrow for short-term cash flow reasons this will be carried out through the money markets, or from the Council's bank if more economic.

2 Interest Rate and Inflation

The rate of interest on new investments will be made taking into account the market conditions and obtaining rates from a number of institutions on the Council's counterparty list.

Surplus cash may be invested with those institutions shown on the Council's counterparty list for a maximum maturity of 364 days.

The level of investments placed with any one institution are approved annually within the Treasury Strategy and Plan Report by Council. This limit may be adjusted by Council during the year if it is found to be prejudicial to the interest rates the Authority can earn on its investments.

The Authority determines annually, within its Treasury Strategy and Plan, the level of total external debt, temporary external borrowing and variable against fixed interest rate exposure.

3 Credit and Counterparty Policies

The Section 151 Officer will be responsible for preparing for the Council a list of institutions in whom the Council's funds may be invested. This list will be supported by details of the criteria employed to assess the various credit standings of counterparties. As a general principle these institutions will have at least F1, F1+ Fitch short term rating or PI Moody's short term rating although, subject to the supporting report of the Section 151 Officer, other non-rated institutions may be included.

The Council will seek to ensure that the maximum amount of market, media and local intelligence is gathered and communicated to the responsible treasury staff to assist them in constantly reviewing sectors and individual institutions on the approved list. The Section 151 Officer may add, delete or amend institutions on the approved list during the year. In any event, the list of counterparties will be reviewed annually by Council.

The Council's current policy is not to appoint external fund managers. Under the present circumstances, the Authority does not have sufficient surplus funds to give either enough scope or sufficient diversity of portfolio to justify such consultancy fees.

4 Refinancing

The maturity pattern of all outstanding debt must be reviewed before any new long term loan is taken and before debt is rescheduled.

Variable and fixed rate funds should be kept under review with the potential of securing discounts.

5 Legal and Regulatory Work

Treasury management activities will be carried out in accordance with rules governing the investment of local authorities funds as set out in the Local Authorities (Capital Finance) (Approved Investments) Regulations 1990, and the Local Authorities (Capital Finance) Regulations 1997, as amended.

In addition activities will be conducted in accordance with the Council's approved Treasury Management Strategy and Plan, and Treasury Management Policy Statement. This includes the adoption of CIPFA's Code of Practice for Treasury Management in the Public Services and CIPFA's Prudential Code for Capital Finance in Local Authorities.

Evidence of officers delegated powers, to borrow and invest, will be provided on request to counterparties as set out in the constitution.

All the banks included in the Council's lending list are authorised under the Banking Act 1987, to accept deposits in the UK.

6 Fraud, Error and Corruption, and Contingency Management

In order to minimise the possibility of fraud, error and corruption the procedures for carrying out and monitoring treasury management activities are subject to audit, as well as various internal controls and reporting to the Council.

Evidence of fraud and corruption should be reported to the Section 151 Officer and Head of Law and Democracy, in accordance with the Council's Anti Fraud & Corruption Policy, who will then determine the appropriate course of action.

The Chief Executive and Section 151 Officer must include arrangements for the proper and continuous fulfilment of the Treasury Management function in any disaster planning.

The Council's fidelity guarantee insurance provides cover of up to £2.5 million for all employees for losses caused by fraud.

7 Market Risk Management

The value and performance of the Council's investments is regularly monitored and is reported to Members on an annual basis.

In order to manage risk and protect public funds, the following are the only organisations with which investments will be placed.

- Other Local Authorities
- UK Clearing Banks and their subsidiaries
- Government Institutions
- Building Societies
- Money Market Funds
- CCLA Property Funds

In addition each clearing bank or subsidiary will be assessed for its credit standard and rating. The minimum rating that the authority will accept prior to placing a temporary loan are.

- Long Term Investments Fitch Rating A
- Short Term Investments Fitch Rating F1
- Money Market Funds are required to be rated AAA

In addition the Authority will invest with Building Societies with an asset base of at least one billion UK pounds as reviewed annually in the Councils Investment Strategy.

There should be a maximum amount which officers are permitted to invest with any one institution. This amount should be reviewed annually within the Treasury and Investment Strategies and Plan Report to the Council. Deposit accounts held with the Councils own bank are not subject to this limit.

The level of external debt, temporary external borrowing and exposure to variable and fixed rate interest should be set within the Treasury Strategy and Plan Report.

TMP 2 PERFORMANCE MANAGEMENT

Banking services are renegotiated or re-tendered normally every 3-5 years to ensure competitive pricing.

The Council uses money broking services in order to make deposits or to borrow. Charges for all services are established prior to using them to ensure that the relevant terms are satisfactory in the light of market conditions.

The following brokers may be used by the Council:

- Martins Brokers
- Tradition Brokers

The quality of service provided by these brokers shall be monitored on a regular basis and reviewed annually.

In order to provide the best possible value in treasury management the Authority may employ financial consultants for specialist advice on the markets and developments in treasury management and accounting.

The following consultants may be used by the Council

- Arlingclose Treasury Management

The performance of the Council's borrowing activities is monitored by calculating the average interest rate on external borrowing and is compared to the rate for the previous year. This is included in the annual Treasury Management Performance Report.

TMP3 DECISION MAKING AND ANALYSIS

In carrying out treasury management responsibilities the Section 151 Officer will meet on a regular basis with the Head of Finance to discuss and agree the implementation of the Treasury Strategy and Plan, monitor performance and make decisions on operational treasury management issues.

Detailed records will be maintained of all borrowing and investments made by the Council. These records are reconciled on a monthly basis to the financial management system.

In respect of borrowing objectives, the Council will:

- minimise the revenue costs of debt
- manage the debt maturity profile to ensure that there is no overexposure to re-borrowing in any one year
- effect borrowing at the cheapest cost commensurate with future risk
- be aware of the future interest rate forecasts and to borrow accordingly
- monitor and review the level of variable interest rate loans in order to take advantage of interest rate movements
- ensure that borrowings accord with statutory requirements

In respect of investment objectives, the Council will:

- maximise the level of return commensurate with maximum protection of the Council's money
- invest in accordance with the approved list of counterparties
- manage the maturity profile to ensure that there is no exposure to reinvestment at any point in the year
- ensure all investments fall within the definitions of Approved Investments

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

1 Treasury Management Procedure Notes

Detailed procedures to be followed when carrying out cash flow monitoring and any borrowing or investment activities will be maintained and updated as requested.

2 Approved Activities of the Treasury Management Operation

- borrowing
- lending
- consideration, approval and use of new financial instruments and treasury management techniques
- managing the underlying risk associated with the Council's capital financing and surplus fund activities
- managing cash flow
- banking activities
- leasing

3 Approved Instruments for Investments

The Council will only invest surplus funds in accordance with the investments approved under the Local Government (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments i.e.

- Institutions authorised under the Banking Act 1987 by the Bank of England
- Building Societies
- Local Authorities
- Other public sector bodies as permitted by the above regulations

4 Approved Methods and Sources of Raising Capital Finance

The following instruments are available and may be utilised to provide capital finance:-

	Rates of interest	
	Fixed	Variable
PWLB	✓	✓
Market Long-term	✓	✓
Market Temporary	✓	✓
Bank Overdraft		✓
Internal Funds		✓
Operating Leases	✓	✓
Finance Leases	✓	✓

No instruments, other than those listed may be used.

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

In accordance with the Council's Constitution, the Council through its Policy Finance and Development Committee is responsible for approving the annual Treasury Strategy and Plan.

1 Responsibilities of Staff Relating to Treasury Management**Section 151 Officer**

- Ensure that Treasury Management activities comply with the CIPFA Code of Practice for Treasury Management in the Public Services.
- Submit budgets for treasury management activities
- Implement the Council's Treasury Strategy and Plan.
- Report to Council on the Treasury Strategy and Plan for the next financial year and Treasury Management Performance for the past financial year.
- Ensure the adequacy of internal audit and liaise with external audit
- Approve the Council's lending list and any changes to it
- Ensure staff involved in treasury management receive appropriate training
- Ensure that the treasury management function is adequately resourced
- Ensure all staff involved in dealing are aware of the principles contained in the Bank of England's London Code of Conduct for corporate dealing in the money market
- Assess and appoint money brokers
- Ensure that all proposed transactions are intra-vires

Head of Finance/ Financial Services Manager

- Absence cover for the Section 151 Officer
- Prepare the annual Treasury Strategy and Plan Report and the annual Treasury Management Performance Report
- Prepare the annual budget for treasury management activities
- Review TMPs
- Transmit priority payments
- Advise the Section 151 Officer on treasury management matters
- Manage the treasury management function

Technical Accountant

- Check daily cash-flow and agree dealing
- Ensure adherence to Council's lending list
- Check monthly reconciliations
- Maintain procedure notes for the treasury management function
- Dealing and recording of deals
- Completion of Priority Payment forms
- Maintenance of documentation
- Prepare daily and long term cash-flow projections
- Check receipt of treasury management funds
- Prepare documentation to confirm deal which should be signed by an approved signatory.

Trainee Accountant

- Reconcile Treasury records to the financial ledger on a monthly basis.

Other Responsible Officers

Head of Paid Services

- That the system is laid down and properly resourced.
- That the Section 151 Officer complies with statutory guidelines as regards reporting to elected members on treasury policy, activity and performance.

The Monitoring Officer

- Should ensure that all policy and strategy put forward by the Section 151 Officer complies with the law.

Internal Audit Service

- Review compliance with approved policy and procedures.
- Review division of duties and operational practice.
- Review treasury function for probity.

2 Dealing and Decision Making Limits

All treasury management activities should be carried out in accordance with the annual Treasury Strategy and Plan.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

1 Annual Treasury Strategy and Plan

The Treasury Strategy and Plan sets out the expected treasury activities for the forthcoming financial year. This strategy will be submitted to Council for approval before the start of each financial year.

The formulation of the annual Treasury Strategy and Plan involves determining the appropriate borrowing and investment decisions in the light of anticipated movement in both fixed and shorter-term variable interest rates.

The Treasury Strategy and Plan will include the following elements:

- The current treasury position
- The expected movement in interest rates
- The Council's borrowing and debt strategy
- The Council's investment strategy
- Treasury performance indicators (see 2 below)
- Specific limits on treasury activities
- Local treasury issues

The Section 151 Officer must ensure that all proposed transactions are intra-vires, and if not must make a report under Section 114 of the Local Government Finance Act 1988.

The Section 151 Officer and Chief Executive and Monitoring Officer, must ensure that the stated policy is adhered to and if not must also bring the matter to the attention of the elected members as soon as possible.

In the circumstances of a Section 114 report the external auditor must be advised immediately.

2 Borrowing Limits

As required by the Local Government Act 2003 and CIPFA's Prudential Code for Capital Finance in Local Authorities, Council must approve before the beginning of each financial year the following limits:

- the Authorised Limit for External Debt
- the Operational Boundary for External Debt
- the Upper Limit on Fixed Interest Rate Exposure
- the Upper Limit on Variable Interest Rate Exposure

for the forthcoming year and the following two years.

Furthermore Council must approve before the beginning of the financial year:

- the Lower Limit for the Maturity Structure of Borrowing
- the Upper Limit for the Maturity Structure of Borrowing

for the following periods:

- under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and above.

The Section 151 Officer is responsible for incorporating these limits into the annual Treasury Strategy and Plan and for ensuring compliance with the limits. Should it prove necessary during the year to amend these limits the Section 151 Officer in consultation with the Chief Executive may in exceptional circumstances do so, but only if it is necessary to avoid incurring a loss or cost to the Council.

Any such interim action must be reported to the Leader of the Council and Chairperson of the Policy, Finance and Development Committee and be endorsed at the next meeting of the Council.

3 Annual Treasury Management Performance Report

An annual report will be presented to Council by the end of September, to report on the performance of the Treasury Management Function for the previous year.

This report will include the following.

- Actual borrowing, investments and repayments for the year, detailing counterparty amounts and terms.
- The actual interest rate changes for the year against the original plan.
- A commentary on general performance
- A commentary on compliance with the Treasury Management Policy Statement and the Treasury Strategy and Plan.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

1 Accounting Practices and Standards

The Section 151 Officer will prepare a budget for Treasury Management in accordance with the appropriate accounting practices and standards and with the statutory and regulatory requirements in force.

2 List of Information Requirements of External Auditors

External auditors will have access to all papers supporting and explaining the operation and activities of the treasury management function.

TMP 8 CASH AND CASH FLOW MANAGEMENT

1 Preparation of Cash Flow Statements

Cash flow projections will be prepared on a regular and timely basis in order to effectively manage cash balances and to calculate interest and investment income.

There is no necessity to maintain an aggregate surplus cash balance but where possible it is the intention to achieve a nil cleared balance.

The cash flow forecast is updated daily to take account of income and expenditure i.e. creditors and debtors and this information is provided by the National Westminster Bankline service. This will ensure for the purposes of monitoring compliance with TMP1 Liquidity Risk Management, that adequate funds are available on a regular basis.

Whenever the projected cash flow statement indicates a surplus cash balance funds are invested with institutions on the counterparty list.

The Council make creditor payments on the due date which ensures that funds remain in the account for as long as possible.

Debtor invoices are raised on a regular and timely basis and procedures are in place for reminder and recovery action to take place for unpaid invoices.

Bank statements are received on a daily basis and are reconciled to the Cash Book.

TMP 9 MONEY LAUNDERING

1 Procedures for Establishing Identity of Lenders

The Council does not accept loans from individuals. Loans are obtained from authorised institutions under the Banking Act 1987, building societies or from other public sector bodies, e.g. the Bank of England or other local authorities.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

A number of different courses are run to accommodate the training requirements of staff involved in treasury management activities, as well as those involved at a strategic level. These courses will explain the complexities of dealing procedures, interest calculations, credit ratings, the regulatory framework, different types of investment instruments, etc.

Seminars are held for staff involved in managing the service, issues covered are for example:

- to provide updates on the implications of new regulations/ legislation
- codes of practice
- to obtain the latest economic forecasts for the economy and interest rates.

TMP 11 USE OF EXTERNAL SERVICE PROVIDER

External Service providers may be employed to give expert advice on borrowing and lending decisions. The Council will at all times make sure that these providers will only be employed where there is a clear value for money benefit to the organisation. The selection of these providers will be carried out under the Council's Contract Procedure Rules and their performance and value to the organisation will be monitored and measured.

The Council recognises that responsibility for treasury management decisions lies with the Council at all times

TMP 12 CORPORATE GOVERNANCE

The Council is committed to proper corporate governance, openness and transparency in its treasury management activities as demonstrated by the adoption of the Treasury Management Code of Practice.

Information about the Council's treasury management activities is accessible and the strategy and outturn reports are public documents.

The procedures set out in the TMPs for reporting and audit (both internal and external audit) are designed to ensure the integrity and accountability of the function.