

## TREASURY MANAGEMENT STRATEGY STATEMENT 2018-19

### 1. INTRODUCTION

#### 1.1. Background

This Treasury Management Strategy Statement details the expected activities of the Treasury Management function for the 2018-19 financial year. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Treasury management is defined as:

“The management of the local authority’s investments and 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.”

#### 1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code, and the CIPFA Treasury Management Code of Practice (which was adopted by Northumberland County Council in February 2010).

The codes define the manner in which capital spending plans are to be considered and approved, and require the Council to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. In conjunction with this, they also require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy - as required by the Investment Guidance issued by The Department of Communities and Local Government which came into effect from 1 April 2010.

#### **Proposals to Amend the CIPFA Treasury Management and Prudential Codes**

CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review focuses on non-treasury investments (it is possible that this will also include loans to third parties) and especially on the purchase of property with a view to generating income, as well as the proposed introduction of a Capital Strategy.

DCLG is also consulting on a proposed update to its Investment Guidance. In the same vein as the CIPFA review, the proposals centre on potential disclosure of non-core investments within the Annual Investment Strategy. Non-core investments are investments outside of the standard investment of cash flow balances.

At the time of writing, none of the documents have yet been finalised. However the focus of both of these reviews, and proposed revisions, have been taken into account in the following strategy. The accompanying papers to this report also include a draft Capital Strategy.

### **1.3. Basis and Content of Treasury Management Strategy for 2018-19**

The suggested strategy for 2018-19 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented by leading market forecasts provided by the Council's treasury advisors, Link Asset Services (formerly Capita). The strategy covers:

- Current portfolio position;
- Economic outlook and prospects for interest rates;
- Borrowing Strategy for 2018-19;
- Annual Investment Strategy for 2018-19;
- Housing Revenue Account (HRA) treasury costs;
- Treasury management limits and prudential indicators;
- Minimum Revenue Provision Policy Statement;
- Policy on use of external service providers;
- Implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements, and;
- Other Issues / Risks – Adoption of IFRS 9 Financial Instruments.

### **1.4. Balanced Budget Requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that the impact of increases in capital expenditure - such as interest charges associated with any new borrowing, and any increases in running costs from these capital projects - must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

The Council also has a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.

## APPENDIX 16

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.

### 2. THE PORTFOLIO POSITION AT 30 NOVEMBER 2017

#### 2.1. Current Borrowing

The Council's borrowing at 30 November 2017 is shown below:

	General Fund £m	HRA £m	Total Principal 30 Nov 2017 £m	Weighted Average Rate %
Public Works Loan Board Loans	202.70	65.96	268.66	3.40
LOBOs	186.50	23.00	209.50	3.90
Market / Local Authority (>1yr)*	304.00	8.10	312.10	1.60
Salix	0.07	0.00	0.07	0.00
Short Term loans* (<1yr)	15.00	0.00	15.00	0.67
<b>TOTAL EXT BORROWING</b>	<b>708.27</b>	<b>97.06</b>	<b>805.33</b>	<b>2.78</b>

\* Note: above figures are based on the term of loans at their inception

Total external borrowing has increased by £43.72 million from £761.61 million at the start of year to £805.33 million at 30 November 2017. Following further repayments and forward dated loans (agreed previously) the year end figure is expected to be £742.06 million.

#### 2.2. Current Investments

The table below summarises the investment position at 30 November 2017:

	Total Principal 30 Nov 2017 £m	Weighted Average Rate %
Money Market Funds and Call Accounts	58.20	0.41
Fixed Term Investments – Short Term (<1yr)*	108.00	0.36
Fixed Term Investments – Long Term (>1yr)*	33.25	3.24
<b>TOTAL EXTERNAL INVESTMENTS</b>	<b>199.45</b>	<b>0.85</b>

\* Note: above figures are based on the term of investments at their inception

### 3. FORECAST FOR INTEREST RATES AND ECONOMIC OUTLOOK

The Council has appointed Link Asset Services (formerly Capita) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view of rates for 2018-19 (at 7 November 2017). A longer view and more detailed forecast, including additional forecasts from Capital Economics, is included at Annex A.

	Qtr 1 (Q/E Jun 2018)	Qtr 2 (Q/E Sep 2018)	Qtr 3 (Q/E Dec 2018)	Qtr 4 (Q/E Mar 2019)
Bank Rate	0.50%	0.50%	0.75%	0.75%
5yr PWLB	1.60%	1.70%	1.80%	1.80%
10yr PWLB	2.30%	2.40%	2.40%	2.50%
25yr PWLB	3.00%	3.00%	3.10%	3.10%
50yr PWLB	2.70%	2.80%	2.90%	2.90%

#### 3.1. Economic Outlook (at December 2017)

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

Long-term borrowing rates are largely driven by gilt / bond yields, which are in themselves (inversely) governed by gilt price / demand movements - when demand for gilts increases, prices rise, but the yield received effectively falls.

The overall longer run trend is for gilt yields, and therefore PWLB borrowing rates, to gently rise going forward. It has long been expected that at some point there would be a start to a switch back from gilt/bond purchases to equities purchases, following a historic long term trend of falling gilt/bond yields. Not least because a lot of these gilt/bond purchases were fuelled by the actions of central banks since the financial crash of 2008 in implementing substantial quantitative easing – and position which will inevitably need to be reversed at some point. Notwithstanding this, the sharp rise in bond yields since the US Presidential election may in itself signal the more general start of this reversal; especially since America is likely to lead the way in reversing monetary policy.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The US Central Bank has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise.

Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have recently been subject to exceptional levels of volatility, which have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that similar levels of volatility could continue to occur at any point during the forecast period.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit.

### **3.2. Downside Economic Risks**

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and therefore PWLB borrowing rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump.

- A sharp Chinese downturn and its impact on emerging market countries.

### **3.3. Upside Economic Risks**

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The US Federal Bank causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

## **4. THE BORROWING STRATEGY 2018-19**

### **4.1. Introduction**

The Council borrows to fund the Capital programme, including loans to third parties for policy reasons (such as those to Northumberland's Development Company and Northumbria Healthcare Trust etc.). Its capital expenditure plans are therefore the key driver of treasury management activity.

The output of capital expenditure plans is reflected in the Prudential Indicators, as set out in Appendix 14.

### **4.2. Borrowing Need – Capital Financing Requirement**

The Council's long-term borrowing requirement is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans: At

least in the short term, investment balances can be ‘used’ in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as ‘internal’ or ‘under’ borrowing. Such an approach also has the added benefit of reducing ‘counter-party’ credit risk in terms of investments; because it reduces the need to place investments with external institutions.

The following tables summarises the forecast CFR movements for the next three financial years (based on the latest capital expenditure plans) along with the anticipated external borrowing over this period; assuming a significant degree on internal borrowing as proposed further below:

<b>CFR Forecast (exc. PFI)</b>	<b>2018-19 £m</b>	<b>2019-20 £m</b>	<b>2020-21 £m</b>
Opening CFR (exc. PFI)	871.36	974.00	1,058.17
Increase in CFR (exc. PFI)	102.64	84.42	50.93
<b>Closing CFR (exc. PFI) [Need to Borrow]</b>	<b>974.00</b>	<b>1,058.17</b>	<b>1,109.10</b>

<b>External Borrowing Forecast (exc. PFI)</b>	<b>2018-19 £m</b>	<b>2019-20 £m</b>	<b>2020-21 £m</b>
Opening External Borrowing (exc. PFI)	742.06	824.52	921.98
Increase in External Borrowing (exc. PFI)	82.46	97.46	51.46
<b>Closing in External Borrowing (exc. PFI)</b>	<b>824.52</b>	<b>921.98</b>	<b>973.44</b>
Under / (Over) Borrowing	149.48	136.19	135.66

### **4.3. Proposed Borrowing Strategy**

With investment returns anticipated to remain low (at least in the short term), it is proposed to continue with the practise adopted in recent years of wherever possible using investments in lieu of external borrowing – i.e. operating an under-borrowing position.

Whilst the principle strategy of maintaining an under-borrowing position will reduce short term revenue costs, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs.

As identified above, by the end of 2018-19 15.4% (£149.48 million) of the Council’s borrowing requirement is proposed to be covered by internal borrowing. The effective cost of this ‘borrowing’ is the foregone investment income. For 2018-19 this is estimated at 0.6% or around £0.84 million (based on the average mid-year internal borrowing position). Taking into consideration a forecast average cost for external borrowing (i.e. average interest rate on actual loans) for 2018-19 of 3.05%, this

equates to a notional saving of 2.45% or around £3.42 million (or alternatively the notional cost of externalisation).

However, it is important to point out that this element of the borrowing requirement is subject to interest rate movements and therefore not without risk. Clearly if investment returns were to increase, or the borrowing had to instead be externalised (and funded by actual loans), the costs associated with this would increase accordingly. In order to identify and quantify this risk, a new (local) indicator has been included in the Council's prudential indicators (see Appendix 14), identifying the level of internal borrowing and the impact of interest rate movements on this proportion of the borrowing requirement.

Despite utilising investments balances to support the borrowing need, as identified above a significant amount of external borrowing will still be required during 2018-19 (around £190m, including maturing loans) and going forward to fund the proposed capital programme. Against the above backdrop and the risks within the economic forecast, it is envisaged this requirement will be met primarily from short to medium term borrowing but also from some longer term loans.

The Section 151 Officer will however continue to monitor the interest rate market and scrutinise all lending opportunities to ensure borrowing is taken at the most advantageous time and limit the risk of exposure to increased borrowing costs in the future.

For example, if it was felt that there was a significant risk of a sharp rise in long rates than that currently forecast (perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK), then the portfolio position will be re-appraised and consideration given to increased long-term borrowing being drawn down whilst interest rates remain low.

Conversely, if it was felt that there was a significant risk of a sharp fall in rates (perhaps due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing may be postponed and the potential for rescheduling from fixed rate funding into short term borrowing perhaps considered.

In line with the scheme of delegation set out in the Treasury Management Practices (TMP's, section 10 below), The Section 151 Officer will continue to approve all borrowing.

#### **4.4. Policy on borrowing in advance of need**

While not expected to happen due to the internal/under borrowing policy, the Council does have flexibility to borrow funds this year for use in future years. Where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. Risks associated with any advance borrowing activity will be subject to appraisal in

advance and subsequent reporting through the mid-year or annual reporting mechanism.

**4.5. Debt Rescheduling**

As short term borrowing rates are forecast to be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment and in particular the premiums incurred.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

The Council will monitor the situation and seek advice from Link Assets Services before any rescheduling of debt. All rescheduling will be reported to the Council at the earliest meeting following its action.

**4.6. Municipal Bond Agency and European Investment Bank**

The Municipal Bond Agency, which is currently in the process of being set up, may be in a position to offer loans to local authorities in the near future; perhaps at rates lower than those offered by the PWLB. Consideration may therefore be given to making use of this new source of borrowing as and when appropriate.

Consideration will also be given to borrowing from the European Investment Bank (EIB), where rates can be forward fixed, if this represents better value of money.

**5. ANNUAL INVESTMENT STRATEGY 2018-2019**

**5.1. Introduction – Investment Policy**

The Council has significant levels of ‘cash-backed’ balances that are available for investment – in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions etc.

**5.2. Investment Returns Expectations**

As outlined section 3 above, Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Against this background, Link Assets Services’ suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	2018-19	2019-20	2020-21	2021-22	2022-23
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Budgeted Rate	0.60%	0.90%	1.25%	1.50%	1.75%
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### 5.3. Investment Strategy

As proposed in section 4 above, it is expected that during 2018-2019 a significant proportion of available investment balances will be used as 'internal borrowing' to support the financing of the CFR. As a result, external investments will be limited and may decrease further during the year.

All remaining funds will be invested in-line with the following Investment Policy, which has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The overall aim of the Investment Strategy is to provide security of capital and minimisation of risk while ensuring the Council has sufficient liquidity.

The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Council is medium, therefore specified and unspecified investments (see below) will be considered. However security and liquidity will continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Annex C).

### 5.4. Investment objectives

The general policy objective for this Council is the prudent investment of its surplus cash balances, which includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. over the 4 year medium term planning cycle). The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments and;
- achievement of optimum yield.

Security and liquidity of principal have always been the priority, and will continue to be so. In CIPFA's view "The priority is to protect capital rather than maximise return. However the avoidance of all risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for public money." In times of budget constraints, making the Council's funds work and generate increased returns is becoming increasingly important. CIPFA encourage Local Authorities to look carefully at their Counterparty Lists to ensure return on investments is achieved.

CIPFA recommends that - "Responsibility for local authorities investment decisions lies, and must continue to lie with the local authorities themselves". The best authorities:

- explicitly balance risk and reward;
- review and scrutinise policies and procedures regularly;
- have well trained staff and engaged elected members and
- use a wide variety of information.

The Credit and Counterparty Criteria List (Annex B), which has not changed, offers diverse counterparties and take into account country, sector and group limits.

This list clearly sets out the minimum acceptable credit criteria for organisations with which the Council will place funds.

The risk appetite of the Council is medium, therefore specified and unspecified investments will be considered, however security and liquidity continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices. (Annex C).

The borrowing of monies purely to invest or lend-on and make a return is unlawful and this Council will not engage in such activity.

### **5.5. Security of Capital and Creditworthiness (Credit and Counterparty Policy)**

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria when determining which organisations it can place investments with. These criteria are set out in Credit and Counterparty Policy which is attached at Annex B.

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

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

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

The Council is alerted daily of changes to ratings of all three agencies. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, no new investment will be made. Consideration will also be given to whether or not existing investments will be withdrawn, which is dependent on whether the bank concerned is agreeable.

As with previous practice, ratings and the use of this external service will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

The assessment will also take account of information that reflects the opinion of the markets. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

### **5.6. Types of investments the council may use**

The Council may use various financial instruments for the prudent management of its treasury balances (as listed in the Credit and Counterparty Policy).

The Credit and Counterparty Policy does not identify individual counterparty names in order to ensure that the Section 151 Officer has the flexibility to place investments with the most suitable organisations, which meet the agreed criteria, in a timely manner.

Treasury staff investigates various products and instruments as they become available to see if they meet the Council's investment priorities and criteria list.

In line with the CLG Guidance, the Credit and Counterparty Policy categorises investments instruments between 'Specified' and 'Non-Specified' investments:

Specified Investments offer high security and high liquidity. All such investments are:

- in pounds sterling;
- due to be repaid within 12 months or which may be required to be repaid within 12 months;
- not capital expenditure;
- made with high credit quality organisations, (for the purpose of this strategy high credit ratings are "A-" and above for long term and "F2/P-2" and above for short term investments), or;
- made with the United Kingdom Government or local authority (including the North East Combined Authority), parish council or community council.

Non-Specified Investments are those which do not meet the criteria for specified investments and give greater potential risk. The CLG do not discourage the use of non-specified investments but state that there is a need for these to be dealt with in more detail.

As in previous years, it is anticipated that the majority of investments will be specified but it is proposed a maximum of 25% of total Council investments may be held in non-specified investments at any one time during the year. This is primarily to allow the

use of large, non-rated, building societies as well investments beyond 1 year with other local authorities.

Investments will only be placed with organisations which meet the criteria set out in the approved Credit and Counterparty Policy. Individual investments or aggregate of investments to one organisation should comply with the monetary limits set out in Credit and Counterparty Criteria List.

Nationalised/part-nationalised banks in the UK have credit ratings which do not comply with the credit criteria used by the Council. However due to significant Government ownership the Council feels more comfortable applying higher limits for investments.

Investments are to be arranged in line with Treasury Management Practices (Annex C) and all investments with new counterparties must be approved by the Section 151 Officer or in his absence the Deputy Section 151 Officer or Finance Managers. There is currently no proposed change to this practice.

### **5.7. Forecast Investment Balances and Liquidity**

Based on current reserves and balances forecast, and allowing for the proposed strategy of using some of the investable balances as 'internal borrowing' to support the financing of the CFR (see Section 4), it is anticipated that in 2018-19 the Council external investment balances will fluctuate throughout the year within a range between £40.0 million and £100.0 million.

To ensure liquidity a minimum of 20% of its overall investments or £5.0 million, whichever is lower, will be held in liquid accounts. For cash flow generated balances, the Council will seek to utilise its money market funds, call accounts and short-dated deposits (overnight to six months).

As investment rates are forecast to remain low and there is a requirement for liquid funds to support the under-borrowing position, it is envisaged the Council will avoid locking into longer term deals. However, if exceptionally attractive rates are available then they will be considered. Close contact will be maintained with the money market to ascertain the most favourable interest rates on offer to achieve best value from the return on surplus monies available.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

### **5.8. Non Treasury Management Investments Defined as Capital Expenditure**

In addition to the above standard treasury management activity, the Council also receives interest from two other 'non-treasury' activities – namely the investment shares NIAL Holdings (Newcastle Airport) [£13.4 million] and Northumberland's Development Company [£3.3 million], and the loans to Newcastle Airport, Northumbria Healthcare NHS Foundation Trust, Northumberland's Development Company and other organisations.

These non-treasury activities are deemed by Statutory Regulations as capital expenditure and are provided to support Council service objectives and corporate priorities. They are not made or regarded as part of the 'core' treasury management activity - i.e. the investment of surplus cash flow balances, as made under the power to invest inferred by s12 of the Local Government Act 2003. As a result these activities were previously outside of the scope of the Investment Strategy.

Proposed amendments to the DCLG's investment guidance recommend that these non-financial or non-core investments should now be included within the Annual Investment Strategy.

Whilst it is entirely appropriate to highlight the scope of these activities, there is a view amongst some practitioners that it may be misleading to refer to items of expenditure in the context of an investment strategy, and that a more suitable mechanism to explain and cover these activities would be within the (newly introduced recommendation from the review of the Prudential Code) Capital Strategy.

Because of their nature, it is difficult (and perhaps inappropriate) to assess and consider non-financial or non-core investments in the context of liquidity and security, which arguably does not apply to these activities, at least not in the same way as it does for standard cash investments. Beyond the terms of the underlying agreement, loans to third parties are not liquid and have no need to be. The expenditure is incurred in the support of service objectives and funded from capital resources, which is different to the requirements and policies surrounding management of the Council's investments and cash flows. Similarly, whilst the return of the funds advanced is key, security for third party loans may need to be considered differently to the credit ratings modelling approach utilised for core-treasury investments.

For this reason, the Council's policy on non-financial or non-core investments, specifically the loans to third parties, is covered separately within the Capital Strategy document at Appendix 12.

A summary of value of (capital) loans to third parties and the interest expected to be received is summarised below:

Borrower	Estimated Balance at 1 Apr 2018 £m	Interest Rate	Forecast Interest Income 2018-19 £m
Northumbria Healthcare Foundation Trust	133.00	3.8%	5.01
Northumberland's Development Company - Commercial Enterprises	190.46	5.6%	10.70
Northumberland's Development Company - Developments	35.61	2.7%	0.98
Northumberland's Development Company - Housing	40.63	4.8%	1.96
Newcastle Airport	11.92	8.6%	1.02
Northumberland College	6.18	4.6%	0.28
Northumberland Aged Miners	2.06	3.5%	0.07
Cramlington Town Council	0.34	4.0%	0.01
Arts Groups (The Maltings, Alnwick Playhouse, Queen's Hall)	0.21	3.9%	0.01
Berwick Core	0.04	4.0%	0.00
<b>Total</b>	<b>420.45</b>	<b>4.8%</b>	<b>20.04</b>

The Medium Term Capital Programme 2018-22 includes a provision of £22.0 million per annum for further loans to third parties, plus an additional £7 million per annum for Business Start-up Loans.

Whilst the income from these advances is significant, the intention is largely only to cover the associated underlying borrowing costs to the Council. The loans are considered and approved to support the Council's service and policy objectives not to generate a financial return for the Council.

### 5.9. Provision for credit related losses

If any of the Council's investments appear at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

## 6. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

### 6.1. Overview

Following implementation of the HRA self-financing reforms in April 2012, a separate pool of specific loans is now maintained for the HRA. The interest costs associated with these loans are charged direct to the HRA. This arguably negates the need for the former HRA Item 8 charge; which allocated a share of the Authority's overall borrowing costs to the HRA.

For the most part, the HRA will aim to ensure that new loans are taken out (or repaid) to match any anticipated movement in its borrowing requirement - known as the HRA Capital Financing Requirement (HRA CFR). There will however be instances during the year when the balance of the HRA loan pool - i.e. actual external borrowing charged to the HRA - does not equate exactly to the HRA CFR. In such circumstances the HRA is in effect borrowing from (or lending to) the General Fund and an additional charge (or credit) is necessary in order to reflect the notional cost of this imbalance. The Council's proposed policy for this arrangement is as follows, the policy remains unchanged from the previous year.

## **6.2. Policy for HRA Under and Over Borrowing**

### **HRA Under-Borrowing**

Where the weighted average balance of the HRA (external) loans pool is less than the weighted average HRA CFR for the same period, notional interest will be charged to the HRA at the average rate of interest for 30-year PWLB borrowing for the period.

### **HRA Over-Borrowing**

Where the weighted average balance of the HRA (external) loans pool is greater than the weighted average HRA CFR for the same period, notional interest will be paid to the HRA at the average 3-month London Interbank Bid (LIBID) rate for the period.

## **6.3. Other Treasury Management Charges to HRA**

As under the former Item 8 arrangements, the HRA will continue to receive interest (or investment income) on its weighted average balances for the year, based on the Council's overall average investment rate.

The HRA will also continue to be charged a proportion of the authority's overall debt management expenses (based on the CFR proportions), as well its share of any historic premiums or discounts associated with the premature repayment of borrowing. Any future / new premiums or discounts will be met fully by the relevant fund of the underlying loan – i.e. premiums or discounts related to loans within the HRA loan pool will be charged fully to the HRA, and vice versa.

## **7. PRUDENTIAL INDICATORS and TREASURY LIMITS 2018-19 to 2020-21**

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

Councils are required to approve a set of Prudential Indicators for the new financial year and adhere to these indicators during the course of that year. The indicators are to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Prudential Indicators for 2018-19 – 2020-21 are set out in Appendix 14.

## **8. THE ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to make additional voluntary payments if required.

DCLG Regulations have been issued which require the full Council to approve an MRP policy in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

DCLG is currently consulting on its MRP guidance. However, none of the proposals being considered would impact on the Council's policy.

The policy has been amended to provide for MRP on those long term capital debtors where principal is repaid on maturity and the loan term is greater than 5 years (such as the loans to Arch). This will also be retrospectively applied to the 2017-18 MRP calculation.

The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement including Additional Voluntary Provision as detailed within Appendix 15.

## **9. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS**

The Code recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will 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.

The Council uses Link Asset Services Ltd (previously known as Capita Asset Services) as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and templates of Member reports;
- Economic and interest rate analysis;
- Debt services which include advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- On line up to date credit ratings.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remain with the Council. The Section 151 Officer will ensure that undue reliance is not

placed upon external service providers and that the service is subject to regular review.

## **10. IMPLEMENTATION OF THE TREASURY MANAGEMENT STRATEGY, SCHEME OF DELEGATION, TRAINING AND REPORTING REQUIREMENTS**

### **10.1. Implementation of the Treasury Management Strategy**

The continued implementation of the above strategy and procedures is the responsibility of the Section 151 Officer, who is authorised to arrange the necessary borrowings within the limits set out in the Prudential Indicators, and necessary investments as set out in the investment strategy.

Northumberland County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

There are no proposed changes to this methodology.

### **10.2. Treasury Management Practices (TMPs)**

Treasury Management Practices (Annex C) set out the manner in which the Council will seek to achieve the treasury management policies and objectives. The Council has adopted the recommended form of words defining the Council's treasury management practices (TMPs), in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. These set out the specific details of the systems to be employed and the records to be maintained. There are no proposed changes to these practices, only minor grammatical updates which do not affect procedure or practice.

These practices are as follows:

- TMP1 Credit and Counterparty Risk management;
- TMP2 Best value and performance measurement;
- TMP3 Decision-making and analysis;
- TMP4 Approved instruments, methods and techniques;
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements;
- TMP6 Reporting requirements and management information;
- TMP7 Budgeting, accounting and audit arrangements;
- TMP8 Cash and cash flow management;
- TMP9 Money laundering;
- TMP10 Training and qualifications;
- TMP11 Use of external service providers;

TMP12 Corporate governance.

TMPs have been updated following a staffing restructure in October 2016.

### **10.3. Responsible Officers**

Daily treasury management activities will be undertaken by a Senior Accountant within the Corporate Finance team, as set out in TMP5. If they are absent a Principal Accountant within Corporate Finance will undertake these activities.

The three annual Treasury Management reports submitted to Cabinet and Council will be produced by the Technical Accountant.

The Finance Manager will ensure all treasury management activities are made in accordance with agreed policies and practices.

### **10.4. Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members received training in October and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. Each officer concerned will receive appropriate training and guidance on their duties and the constraints within which they operate.

### **10.5. Reports and Monitoring**

To ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities, reports need to be submitted to full Council which need to be reviewed by Members of the Council in both Cabinet and Scrutiny functions.

The adequacy of the strategy statement will be monitored and reports requesting amendments to the statement will be produced when changes are thought to be necessary. The changes will be made in consultation with the Cabinet Portfolio holder for Corporate Services, whose role relates to the strategy and associated risks. Any strategy changes will be reported to the Audit Committee.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The following reports are required to be adequately scrutinised by Audit Committee before being recommended to the Council.

#### **Treasury Management Strategy Statement**

The first, and most important report covers:-

- the capital plans (including prudential indicators);

- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**A Mid Year Treasury Management Report**

This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**An Annual Treasury Report**

This provides details of prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

It is proposed that the Council follow reporting arrangements in accordance with the requirements of the revised Treasury Management Code of Practice.

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Scrutiny of treasury management strategy	Audit Committee or Risk Appraisal Panel	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy and Treasury Management Practices	Cabinet / Full Council	Annually before the start of the year
Annual Treasury Outturn Report	Cabinet / Full Council	Annually by 30 September after the end of the year
Treasury Management Budget Monitoring Reports	Incorporated within the Budget Monitoring report and reported separately to Scrutiny Committee	Quarterly
Scrutiny of treasury management performance	Audit Committee	As required
Updates or revisions to Treasury Management Strategy / Annual Investment Strategy / MRP policy –	Cabinet / Full Council	Ad- hoc

The policies and strategies set out in this document will ensure that the management and administration of treasury management will be robust, rigorous and disciplined.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection will be applied with an openness of access to information and provide well-defined arrangements for review and implementation of changes.

## **11. OTHER ISSUES / RISKS – IMPACT OF LOCAL GOVERNMENT ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9 ‘FINANCIAL INSTRUMENTS’**

CIPFA is currently consulting on the impact of changes resulting from amendments to International Accounting Standards which will be introduced in April 2018.

One of the new rules, IFRS 9 ‘Financial Instruments’, will see the removal of the “available-for-sale” classification in the Code of Practice on Local Authority Accounting, which currently allows gains and losses to be held in reserves until realised. This ensures that there is no bottom line impact on general fund balances.

Assets held in this category will now move into the “fair value through profit or loss” category. This means gains and losses from changes in fair value of assets (including the risk of default and expected credit losses on financial instruments) would need to be reflected in the “Surpluses and Deficits in the Provision of Services” line within the Income and Expenditure Accounts of local authorities.; This change would result in an change/impact t on the bottom-line general fund balance.

Subject to interpretation of the standard, this category may also encompass financial assets such as the Council’s loans to third parties, namely the advances to Northumberland’s Development Company, Northumbria Healthcare Foundation Trust and the other Third Party loans.

Officers are currently consulting with the Council’s external auditors (EY) on the matter and also considering guidance and best practice from CIPFA. If these assets are ultimately deemed to fall within this category and require revaluation then there could be a significant financial impact for the Council’s Comprehensive Income and Expenditure account.

However, where the Council provides loans to third parties for service and policy reasons they may not fall under the “fair value through profit or loss” classification, on the basis that they are being provided to support Council service objectives and corporate priorities. In addition, because the loans are classed as capital items, existing statutory regulations would allow the reversal of any bottom-line revenue effect. This would therefore mitigate the requirement to reflect any changes which would impact on the bottom line Comprehensive Income and Expenditure Account of the authority. Officers are currently investigating this matter and members will be kept informed of progress.

**ECONOMIC FORECAST - NOVEMBER 2017**

**ANNEX A**

<b>CAPITA ASSET SERVICES</b>	<b>End Q4 2017</b>	<b>End Q1 2018</b>	<b>End Q2 2018</b>	<b>End Q3 2018</b>	<b>End Q4 2018</b>	<b>End Q1 2019</b>	<b>End Q2 2019</b>	<b>End Q3 2019</b>	<b>End Q4 2019</b>	<b>End Q1 2020</b>	<b>End Q2 2020</b>	<b>End Q3 2020</b>	<b>End Q4 2020</b>	<b>End Q1 2021</b>
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

<b>CAPITAL ECONOMICS</b>	<b>End Q4 2017</b>	<b>End Q1 2018</b>	<b>End Q2 2018</b>	<b>End Q3 2018</b>	<b>End Q4 2018</b>	<b>End Q1 2019</b>	<b>End Q2 2019</b>	<b>End Q3 2019</b>	<b>End Q4 2019</b>	<b>End Q1 2020</b>	<b>End Q2 2020</b>	<b>End Q3 2020</b>	<b>End Q4 2020</b>	<b>End Q1 2021</b>
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

## CREDIT AND COUNTERPARTY CRITERIA POLICY

The Council recognises the need for security of principal to be of paramount importance. In recognition of the need to minimise risks associated with its treasury management activities, credit rating criteria, as outlined below will be used to select counterparties with whom the council will place funds. Treasury management staff will analyse all counterparties prior to investing funds.

### Specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 years (with annual calls)
DMO	N/A	N/A	Unlimited	6 mths
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 mths
Semi-nationalised banks	N/A	N/A	£35m per bank £70m per banking group	12 mths
Money Market Funds: Public Debt Constant Net Asset Value ("CNAV") MMFs and Low Volatility NVA ("LVNAV") MMFs	AAA	Aaa	£25m per fund (£150m in total)	Instant Access
<b>Deposits and Certificates of Deposit</b> with approved eligible financial institutions which meet the following criteria				
<b>Very High Grade</b> U.K. Clearing Banks / Building Societies	ST: F1+ LT: AA-	ST: P-1 (2)	£25m £50m per banking group	12 mths
<b>High Upper Medium Grade</b> U.K. Clearing Banks/ Building Societies	ST: F1 LT: A-	ST: P-1 LT: A3	£15m £30m per banking group	12 mths
<b>High Grade Foreign Banks</b>	ST: F1 LT: A-	ST: P-1 LT: A3	£10m Country limit £30m	6 mths

### Non-specified Investments

No more than 25% of the total investment portfolio will be placed in non-specified investments.

Type of Organisation	Minimum Credit Rating Criteria	Max Amount of Principal	Max Period
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	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 Years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 Years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fund (£60m in total)	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F1 LT: A-	ST: P-1 LT: A3	£10m per institution	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F2 LT: A-	ST: P-2 LT: A3	£5m per institution	12 mths
Good, Medium grade, moderate credit risk	ST: F2 LT: BBB	ST: P-2 LT: Baa1	£10m per banking group	6 mths
Building Societies which have assets in excess of £10 billion	N/A	N/A	£12m per Building Society	12 mths
Building Societies which have assets in excess of £5 billion	N/A	N/A	£10m per Building Society	6 mths
Building Societies which have assets in excess of £1 billion	N/A	N/A	£5m per Building Society	3 mths

*Ratings determine limits except for nationalised, semi-nationalised and local authorities.*

*Unrated subsidiaries can be used providing there is an unconditional guarantee from a rated parent.*

## Rating Symbols

Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same.

Moody - The Moody's rating scale runs from a high of Aaa to a low of C, and comprises of 21 notches. It is divided into two sections, investment grade and speculative grade. The lowest investment grade rating is Baa3. The highest speculative grade rating is Ba1.

Fitch - The Fitch rating scale runs from a high of AAA to a low of D, and comprises of 21 notches. It is divided into two sections, investment grade and speculative grade. The lowest investment grade rating is BBB. The highest speculative grade rating is BB. Thus, the use of credit ratings defines their function: "investment grade" ratings (international long-term 'AAA' - 'BBB' categories; short-term 'F1+' - 'F3') indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D'; short-term 'B' - 'D') may signal a higher probability of default or that a default has already occurred.

Fitch Rating	Moody Rating	Risk
<b>Long term ratings (maturities of one year or greater)</b>		
<b>Investment Grade</b>		
AAA	Aaa	Highest rating, representing lowest level of credit risk
AA+, AA, AA-	Aa1, Aa2, Aa3	Very High grade, very low credit risk
A+, A, A-	A1, A2, A3	High (Fitch) Upper medium grade(Moody's), low credit risk
BBB	Baa1, Baa2, Baa3	Good, Medium grade, moderate credit risk
<b>Speculative Grade</b>		
BB+, BB, BB-	Ba1, Ba2, Ba3	Speculative elements, vulnerable to default
B+, B, B-	B1, B2, B3	Subject to high credit risk
CCC, CC+, CC, CC-	Caa1, Caa2, Caa3	Poor standing very high credit risk
DDD	Ca	Highly speculative, or near default
D+, D	C	Lowest rating, typically in default, little prospect for recovery of principal or interest
<b>Short term ratings (maturities of less than one year)</b>		
F1+	Prime-1 (P-1)	Superior ability to repay ST debt
F2	Prime-2 (P-2)	Strong ability to repay ST debt
F3	Prime-3 (P-3)	Acceptable ability to repay ST debt
B-D	Not Prime	Poor, risk of default

## **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 the Council. There are no changes to practices from last year, only minor updates.

### **1. TMP1 CREDIT AND COUNTERPARTY RISK MANAGEMENT**

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's strategy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime,

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 10 February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs).

#### **1.1. LIQUIDITY**

##### **1.1.1. Amounts of approved minimum cash balances and short-term investments**

The Treasury Management section shall seek to ensure that there is nil balance in the Council's main bank accounts at the close of each working day, in order to minimise the amount of bank overdraft interest payable, and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

##### **1.1.2. Standby facilities**

The Council has several instant access Money Market Funds and call accounts, where monies can be invested or withdrawn as required on the same day.

##### **1.1.3. Bank arrangements**

The balance held in Barclays can be up to the limit stipulated in the Credit and Counterparty Criteria list. A transfer called a 'sweep' can be made between the Barclays main bank account and a Barclays interest bearing account. The overdraft limit is £500,000, with an annual fee of £2,500 and interest charged at 2%. Unauthorised overdraft will be charged at 3%. The overdraft is assessed on a group basis for the Council's accounts

## 1.2. INTEREST RATE

### 1.2.1. Details of approved interest rate exposure limits

Please refer to Prudential Indicators Appendix 3.

### 1.2.2. Trigger points and other guidelines for managing changes to interest rate levels

Please refer to annual Treasury Strategy which will outline views for the year.

### 1.2.3. Minimum/maximum proportions of variable rate debt/interest

Maximum proportion of interest on borrowing which is subject to variable rate interest permissible is 50%.

Minimum proportion of interest on borrowing which is subject to variable rate interest permissible is 0%.

### 1.2.4. Minimum/maximum proportions of fixed rate debt/interest

Minimum proportion of interest on borrowing which is subject to fixed rate interest permissible is 50%.

Maximum proportion of interest on borrowing which is subject to fixed rate interest permissible is 100%.

### 1.2.5. Policies concerning the use of financial derivatives and other instruments for interest rate management.

a) **Forward dealing (agreeing to invest money at a future date):** Consideration will be given to dealing from forward periods dependent upon market conditions. Any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy. All forward dealing should have the approval of either the Section 151 Officer or Deputy Section 151 Officer.

b) **Callable deposits:** Callable deposits are permitted subject to approval from the Section 151 Officer.

c) **LOBOS (borrowing under lender's option/borrower's option):** The use of LOBOs are considered as part of the borrowing strategy. Any money borrowed for periods in excess of one month must be approved by either the Section 151 Officer, Deputy Section 151 Officer or a Finance Manager.

### **1.3. EXCHANGE RATE**

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

Exchange rate risk will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Northumberland County Council rarely deals with foreign currency so an exposure to exchange rate risk will be extremely minimal.

On rare occasions where investments are made in non-sterling, advice on the risk to exchange rate fluctuations will be sought from the Council's bankers and other professionals as necessary.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

### **1.4. INFLATION**

#### **1.4.1. Details of approved inflation exposure limits for cash investments/debt**

There is significant uncertainty with economic forecasts. Whilst short term investment rates are expected to remain low, borrowing rates are expected to rise very gently. Inflation is expected to return to around 2%.

The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

#### **1.4.2. Approved criteria for managing changes in inflation levels**

Inflation both current and projected will form part of the debt and investment decision making criteria within both the strategy and operational considerations.

### **1.5. CREDIT AND COUNTERPARTY POLICIES**

#### **1.5.1. Criteria to be used for creating/managing approved counterparty lists/limits**

a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed.

b) Treasury management staff will decide which counterparties to use in line with the strategy on criteria for selection of counterparties. Changes to the

Credit and Counterparty Criteria List will be included in the annual report, mid year report, or where necessary an ad hoc report to Council.

c) Credit ratings will be used as supplied from at least two of the following credit rating agencies:

- Fitch Ratings;
- Moody's Investors Services;
- Standard & Poor's.

d) Treasury Management Advisors provide a weekly update of all ratings relevant to the Council, as well as any changes to individual counterparty credit ratings. This information is accessible on line via Capita's new website - Passport.

e) No lending is allowed without prior approval.

f) Subsidiaries that do not have a credit rating in their own right may be used if they are guaranteed by a highly rated parent company.

g) The maximum value for any one investment transaction will be £35 million.

h) Investment in the building society sector should be limited to 30% of the average annual investment balances.

#### **1.5.2. Approved methodology for changing limits and adding/removing counterparties**

Credit ratings for individual counterparties can change at any time. The Section 151 Officer is responsible for applying the credit rating criteria detailed in the Treasury Management Strategy Statement for selecting approved counterparties.

The Section 151 Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria set out in the Treasury Management Strategy Statement. This is delegated on a daily basis to staff in the treasury management function.

### **1.6. REFINANCING**

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

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

- a) The generation of cash savings at minimum risk;
- b) To reduce the average interest rate;
- c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility).
- d) To reduce the risk associated with the investment of surplus funds.

The Section 151 Officer has delegated authority, in consultation with the Portfolio Holder for Corporate Services, to reschedule current long-term debt and to arrange the necessary borrowings within the following remit: -

- a) The maximum amount of outstanding borrowing shall be as stated in the prudential indicators.
- b) Within that sum the maximum amount of short term borrowing is 25%.
- c) The limit on the proportion of borrowings on which interest is payable at variable rates is 50%,

The Council will seek to limit refinancing exposure by ensuring that no more than 25% of the loan portfolio matures in any one year.

### **1.6.2. Projected capital investment requirements**

As part of the annual budget setting process a four year plan for capital expenditure for the Council is produced. The capital plan will be used to prepare a four year revenue budget for asset rentals which include loan charges of principal repayments, interest and expenses. These take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

### **1.6.3. Policy concerning limits on revenue consequences of capital financing**

The Prudential Code supports local authorities in determining their Capital Programmes, within the clear framework that the plans are affordable, prudent and sustainable. To demonstrate that local authorities fulfil these criteria the Code sets out indicators that must be used.

A number of these Prudential Indicators are relevant to setting an integrated Treasury Management Strategy. The indicators are set on a rolling basis, for the forthcoming financial year and two successive financial years. Please refer to the prudential Indicators are contained within Appendix 3.

## **1.7. LEGAL AND REGULATORY**

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

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

- a) CIPFA's Treasury Management Code of Practice (revised 2009 and 2011)
- b) The Prudential Code for Capital Finance in Local Authorities 2003 (revised 2009 and 2011)
- c) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- d) CIPFA Standard of Professional Practice on Treasury Management
- e) Local Government Act 2003 (revised 2010)
- f) The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- g) Council's Constitution relating to Contracts
- h) Council's Finance and Contract Rules
- i) Council's Scheme of Delegations
- j) The Bribery Act 2010

### **1.7.2. Procedures for evidencing the organisation's powers/authorities to counterparties**

The Council will prepare, adopt, and maintain, as the cornerstone for effective treasury management:-

- a) A Treasury Management Strategy Statement, stating the overriding principles and objectives of its treasury management activities; and
- b) The Annual Investment Strategy

### **1.7.3. Required information from counterparties concerning their powers / authorities**

Lending shall only be made to counterparties which meet the criteria set out in the Credit and Counterparty Criteria List.

Northumberland County Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

#### **1.7.4. Statement on the organisation's political legislative or regulatory risks**

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

### **1.8. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT**

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

a) Authority:

- Loan procedures are defined in the Council's Financial Regulations.
- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons within the Corporate Services Group.

b) Occurrence:

- Detailed register of loans and investments is maintained on Excel spreadsheets in the Corporate Finance section. This is reconciled to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend, invest or borrow.
- Written confirmation is received from the lending, investment or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

c) Completeness:

- The loans register spreadsheet is updated to record all lending and borrowing. This includes the date of the transaction, interest rates etc.

d) Measurement:

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the senior accountant responsible for Treasury Management.
- A senior accountant calculates periodic interest payments of loans. This is used to check the amount paid to these lenders.

e) Timeliness:

- The Treasury Management spreadsheet prompts the treasury management officer that money borrowed or invested is due to be repaid.

f) Regularity:

- Investments and loans are only made to institutions which meet the Credit and Counterparty Criteria List.
- All loans and investments raised and repayments made go directly to and from the Council's bank account.
- Authorisation limits are set for every institution by the Credit and Counterparty Criteria List. Brokers have a list of named officials authorised to perform investment transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- There is a separation of duties in the Section between the authorisation of transactions and their execution.
- The bank reconciliation is carried out monthly from the bank statement to the financial ledger by a senior accountant and checked by a Finance Manager.

g) Security:

- Barclays Net can only be accessed by users using their individual security card and PIN through a card reader.

- Payments are checked and authorised by an agreed bank signatory. The list of signatories having previously been agreed with the current provider of our banking services.

h) Substantiation:

- A quarterly reconciliation is carried out matching transactions from the treasury management spreadsheets to the financial ledger codes.

### **1.8.2. Emergency and contingency planning arrangements**

Barclays Net online can be accessed on a number of PCs and mobile devices which have the necessary software installed. All spreadsheets are held on the shared drive and therefore can be accessed by other PCs if necessary. If Barclays Net cannot be accessed cash balances can be obtained from Barclays Bank via e-mail. CHAPs payments, which are normally input directly into Barclays Net by the income section, can be faxed, emailed or delivered to the bank for processing.

### **1.8.3. Insurance details**

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The excess for Fidelity guarantee is £5,000. The Council also has a 'Professional Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5 million (named departments) for any one event with an excess of £25,000 for any one event with the exception of legal services where the limit is £1,000,000 with an excess of £1,000 for any one event.

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

## **1.9. MARKET VALUE OF INVESTMENTS**

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

In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective

## **2. TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS**

### **2.1. METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS**

Northumberland County Council is a member of the CIPFA and Link Asset Services benchmarking clubs. Comparisons will be made with a number of

similar authorities. Our treasury management consultant will carry out a regular health check of our treasury management function.

## **2.2. POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT**

### **2.2.1. Frequency and processes for tendering**

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

### **2.2.2. Banking services**

Banking services will be tendered for every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

### **2.2.3. Money-broking services**

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services.

### **2.2.4. Consultants'/advisers' services**

This Council's policy is to appoint professional treasury management consultants.

### **2.2.5. Policy on External Managers (Excluding Superannuation Funds)**

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

## **2.3. METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES**

Performance measured against Annual Treasury Management Strategy Statement targets.

- a) Compliance with CIPFA Code of Treasury Practice.
- b) Expenses contained within approved budget.
- c) Review of benchmarking club data.

## **2.4. BENCHMARKS AND CALCULATION METHODOLOGY**

### **2.4.1. Debt management**

- a) Average rate on all external debt.
- b) Average period to maturity of external debt.
- c) Average rate on external debt borrowed in previous financial year.

### **2.4.2. Investment**

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate). Performance will also be measured against other local authority funds with a similar benchmark.

## **3. TMP3 DECISION-MAKING AND ANALYSIS**

### **3.1. FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS / TECHNIQUES:**

#### **3.1.1. Records to be kept**

- a) All loan transactions are recorded a spreadsheet.
- b) Daily cash projections.
- c) Telephone/e-mail rates.
- d) Dealing slips for all money market transactions – including rate changes.
- e) PWLB loan schedules.
- f) Temporary loan receipts.
- g) Brokers confirmations for deposits/investments

#### **3.1.2. Processes to be pursued**

- a) Cash flow analysis.
- b) Maturity analysis.
- c) Ledger reconciliations
- d) Review of borrowing requirement.
- e) Comparison with prudential indicators.
- f) Monitoring of projected loan charges and interest and expenses costs.

g) Review of opportunities for debt rescheduling.

**3.1.3. In respect of every decision made the organisation will:**

- a) Above all be clear about the nature and extent of the risks to which the organisation may become exposed;
- b) Ensure that decisions are in accordance with approved Treasury Management Strategy;
- c) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorisations to proceed have been obtained;
- d) Be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping;
- e) Ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded;
- f) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

**3.1.4. In respect of borrowing and other funding decisions, the organisation will:**

- a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- c) Consider the alternative interest rate bases available, the most appropriate periods to fund, and repayment profiles to use;
- d) Consider the on-going revenue liabilities created, and the implications for the Council's future plans and budgets.

**3.1.5. In respect of investment decisions, the organisation will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

#### **4. TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

##### **4.1. APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION**

- a) Borrowing;
- b) Lending;
- c) Debt repayment and rescheduling;
- d) Consideration, approval and use of new financial instruments and treasury management techniques;
- e) Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- f) Managing cash flow;
- g) Banking activities.

##### **4.2. APPROVED INSTRUMENTS FOR INVESTMENTS**

All investments will be made following the Approved Credit and Counterparty Criteria List

Investments can be made through one of the following:

- a) The Council's bankers;
- b) The SunGard Portal or other online portals;
- c) Direct with banks and financial institutions;
- d) One of the Council's approved brokers shown in TMP 11.

All cash investments should be arranged by telephone call or e-mail to the above organisations and the borrower concerned will confirm each transaction. An authorised CHAPS payment form is then input into the Bank's electronic system by the Cashiers section and confirmation given that the transaction has been completed.

Derivative instruments. If the Council intends to use these instruments for the management of risk, these will be limited to those set out in its Annual Treasury Management Strategy, and the council will seek proper advice and consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

##### **4.3. APPROVED BORROWING TECHNIQUES**

- a) LOBOs

b) PWLB

c) Local authorities

#### 4.4. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	*	*
EIB	*	*
Market (long-term)	*	*
Market (temporary)	*	*
Market (LOBOs)	*	*
Stock issues	*	*
Local temporary	*	*
Local Bonds	*	
Overdraft		*
Negotiable Bonds	*	*
Internal (capital receipts & revenue balances)		**
Commercial Paper		
Medium Term Notes	*	
Leasing (not operating leases)	*	*
<b>Other Methods of Financing</b>		
Government and EC Capital Grants		
Lottery monies		
PFI/PPP		
Operating leases		

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

## **5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

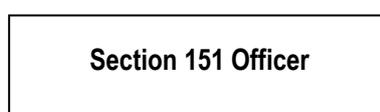
### **5.1. LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/POLICY BOARD LEVELS**

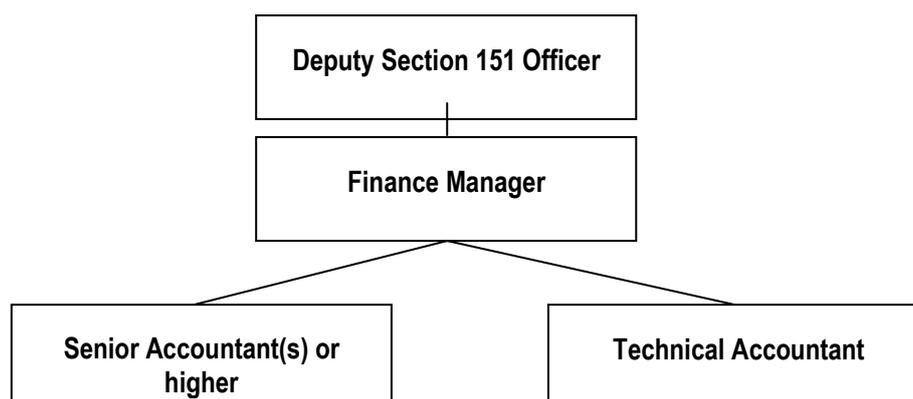
- a) Full Council will receive and approve reports on treasury management policies, practices and activities, the annual treasury management strategy and annual report on debt rescheduling.
- b) The Section 151 Officer will be responsible for amendments to the organisation's adopted clauses, treasury management strategy statement and treasury management practices. A formal report will be put to Cabinet to approve any formal amendments.
- c) The Section 151 Officer will approve the segregation of responsibilities.
- d) The Section 151 Officer will receive and review external audit reports and put recommendations to the Audit Committee.
- e) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Section 151 Officer in accordance with Financial Regulations.

### **5.2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES**

- a) The Section 151 Officer in consultation with the Portfolio Holder for Corporate Services will authorise all new long-term borrowing.
- b) Transactions relating to pre-existing agreements are delegated to the senior accountant responsible for treasury management.
- c) Short-term borrowing and investment are authorised by the Section 151 Officer, Deputy Section 151 Officer, or, in their absence, a Finance Manager.

### **5.3. TREASURY MANAGEMENT ORGANISATION CHART**





#### 5.4. STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

##### 5.4.1. Portfolio Holder for Corporate Resources

- a) The Portfolio Holder for Corporate Services has primary political responsibility for Treasury Management strategy and will be regularly briefed on Treasury Management performance and proposed policy changes by the Section 151 Officer.
- b) The Portfolio Holder for Corporate Services has the right to recommend to the Section 151 Officer that a particular transaction should go to the Risk Appraisal Panel.
- c) The Portfolio Holder for Corporate Services may attend Audit Committee.

##### 5.4.2. Section 151 Officer

The Section 151 Officer will:

- a) Recommend clauses, treasury management strategy / practices for approval reviewing the same on a regular basis, and monitoring compliance;
- b) Submit treasury management strategy reports as required;
- c) Submit budgets and budget variations in accordance with Financial Regulations and guidance;
- d) Review the performance of the treasury management function and promote best value reviews;
- e) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- f) Ensure the adequacy of internal audit, and liaison with external audit;

- g) Appoint external service providers in accordance with council standing orders.
- h) The Section 151 Officer 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.
- i) The Section 151 Officer may delegate his power to borrow and invest to members of his staff; the Deputy Section 151 Officer and Finance Managers. All transactions must be authorised by a named officer above.
- j) The Section 151 Officer will ensure that the Strategy is adhered to, and if not will bring the matter to the attention of elected Members as soon as possible.
- k) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Section 151 Officer to be satisfied that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
- l) It is also the responsibility of the Section 151 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code for principals and broking firms in the wholesale markets.

#### **5.4.3. Senior Accountants responsible for treasury management**

The responsibilities of this post will be:

- a) Monitoring performance and market conditions on a day-to-day basis;
- b) Recommend investments and borrowing transactions;
- c) Execution of transactions;
- d) Adherence to agreed policies and practices on a day-to-day basis;
- e) Maintaining relationships with third parties and external service providers;
- f) Identifying and recommending opportunities for improved practices.

#### **5.4.4. Technical Accountant**

- a) Review and recommend investments and borrowing transactions;
- b) Maintaining relationships with third parties and external service providers;
- c) Identifying and recommending opportunities for improved practices;
- d) Produce the annual Treasury Management Strategy, Outturn and Mid year review reports.

#### **5.4.5. Finance Manager**

The responsibilities of this post will be:

- a) Line management of the Technical Accountant and Senior Accountant(s) responsible for treasury management;
- b) Review and recommend investments and borrowing transactions;
- c) Authorise CHAPS payments;
- d) Adherence to agreed policies and practices on a day-to-day basis;
- e) Maintaining relationships with third parties and external service providers;
- f) Monitoring performance on a day-to-day basis;
- g) Identifying and recommending opportunities for improved practices;
- h) Reviewing the annual Treasury Management Strategy, Outturn and Mid year review reports

#### **5.4.6. Chief Legal Officer (in the role of monitoring officer)**

The responsibilities of this post will be:

- a) Ensuring compliance by the Section 151 Officer with the Treasury Management Strategy statement and treasury management practices and that these practices comply with the law;
- b) Being satisfied that any proposal to vary treasury strategy or practice complies with law or any code of practice;
- c) Giving advice to the Section 151 Officer when advice is sought.

#### **5.4.7. Internal Audit**

The responsibilities of Internal Audit will be:

- a) Reviewing compliance with approved policy and procedures;
- b) Reviewing division of duties and operational practice;
- c) Assessing value for money from treasury activities;
- d) Undertaking probity audit of treasury function.

#### **5.5. ABSENCE COVER ARRANGEMENTS**

In the absence of the Senior Accountant(s) responsible for treasury management, another accountant in the Corporate Finance section with

treasury management training / experience will perform the daily cash flow tasks.

#### **5.6. DEALING LIMITS**

Persons authorised to deal are identified at 5.4. above and dealing limits are as the Scheme of Delegation for Officers.

#### **5.7. LIST OF APPROVED BROKERS**

A list of approved brokers is maintained and is shown in TMP11.

#### **5.8. POLICY ON BROKERS' SERVICES**

It is the Council's policy to divide business between brokers.

#### **5.9. POLICY ON TAPING OF CONVERSATIONS**

It is not Council policy to tape brokers' conversations.

#### **5.10. DIRECT DEALING PRACTICES**

The Council deals direct if appropriate contacts are established, and if it is advantageous to the Council.

#### **5.11. SETTLEMENT TRANSMISSION PROCEDURES**

For each transaction a CHAPS form is completed and signed by an agreed bank signatory. The transfer is then processed by Cashiers, through the Barclays on-line banking system. This is to be completed by 3.30 pm on the same day.

#### **5.12. DOCUMENTATION REQUIREMENTS**

For each deal undertaken details of dealer, amount, period, counterparty, interest rate, dealing date, payment date, broker, and credit ratings should be recorded. This should be reviewed and authorised in writing or e-mail by either by the Section 151 Officer, the Deputy Section 151 Officer or a Finance Manager.

### **6. TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

#### **6.1. ANNUAL REPORTING REQUIREMENTS BEFORE THE START OF THE YEAR**

- a) The Treasury Management Strategy statement and practices sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval before the commencement of each financial year.

- b) The Council must approve the Prudential Indicators.
- c) The Council must approve the Minimum Revenue Provision Policy.

## **6.2. REPORTING REQUIREMENTS DURING THE YEAR**

- a) A mid year review of the strategy statement
- b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting

## **6.3. ANNUAL REPORTING REQUIREMENT AFTER THE YEAR END**

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

- a) Transactions executed and their revenue effects;
- b) Report on risk implications of decisions taken and transactions executed;
- c) Monitoring of compliance with approved policy, practices and statutory/regulatory requirements;
- d) Performance report;
- e) Report on compliance with CIPFA Code recommendations.

## **7. TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

### **7.1. STATUTORY/REGULATORY REQUIREMENTS**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in England and Wales that is recognized by statute as representing proper accounting practices.

### **7.2. ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in England and Wales. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

### **7.3. SAMPLE BUDGETS / ACCOUNTS**

The senior accountant(s) responsible for treasury management will prepare an annual budget for the treasury management function, which will bring together all the costs involved in running the function, together with associated income.

### **7.4. LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS**

- a) Reconciliation of loans, investments, interest, premiums and discounts to financial ledger.
- b) Confirmation of loans and investments balances.
- c) Maturity analysis of loans outstanding.
- d) Annual Treasury Report.
- e) Calculation of Revenue Interest.
- f) Analysis of accrued interest.

## **8. TMP8 CASH AND CASH FLOW MANAGEMENT**

### **8.1. ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

### **8.2. LISTING OF SOURCES OF INFORMATION**

Estimated cash flow details are compiled using:

- a) Schedule of Payment of Revenue Support Grant and National Non-domestic rates; CLG income;
- b) Schedule of Payment of the Dedicated Schools grant, DCSF;
- c) Revenues payments dates and amounts;
- d) Notifications from the Business Support section of any significant grants expected during the year;
- e) Schedule of payroll payment dates supplied by the Employee services section with an estimated amount based on the previous years payments;

- f) Loan repayments spreadsheet;
- g) An estimated figure for creditor payments, based on previous patterns of expenditure. More accurate figures can be obtained two days before payment based on the Creditor BACs figure.

### **8.3. BANK STATEMENT PROCEDURES**

Payments by CHAPs, Direct Debits, standing orders and imprest accounts are now input by Accounts Payable directly to e-business rather than by journal which gives greater transparency and segregation of duties.

### **8.4. PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

### **8.5. ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS**

- a) The Accounts Receivable section gets a daily report of outstanding debtors and takes appropriate action regarding outstanding debt. Monthly reports are sent to the Deputy Section 151 Officer.
- b) The Accounts Payable section provides monthly statistics of invoices paid to the Deputy Section 151 Officer as well as quarterly and annual reports.

### **8.6. PROCEDURES FOR BANKING OF FUNDS**

All money received by an officer on behalf of the Council will without unreasonable delay be paid into the Council's bank accounts. No deductions may be made from such money save to the extent that the Section 151 Officer may specifically authorise.

## **9. TMP9 MONEY LAUNDERING**

### **9.1. PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS**

The Council does not usually accept loans from individuals. All material loans are obtained from the PWLB, other local authorities or from authorised institutions under the Banking Act 1987: the Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on [www.fca.gov.uk](http://www.fca.gov.uk).

## **9.2. METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS**

In the course of its Treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list.

## **10. TMP10 TRAINING AND QUALIFICATIONS**

### **10.1. STAFF QUALIFICATIONS**

The daily treasury management function will be performed by a qualified accountant or a senior accountant (unqualified) holding a Certificate in International Treasury Management Public Finance, under the supervision of a qualified accountant.

### **10.2. STAFF TRAINING**

New staff will receive in-house on the job training before they commence their duties. Existing staff will attend treasury management seminars, at least annually, to keep up to date with changes in regulations and current practices. Additional staff training needs will be identified as part of the training needs analysis undertaken during Staff Appraisals.

### **10.3. THE SECTION 151 OFFICER**

The Section 151 Officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

### **10.4. MEMBER TRAINING**

All members should have an appropriate level of training within a year of taking office. Members of the Audit Committee are scheduled to receive this in January 2018, and it will be periodically updated or provided where membership changes. This will be carried out in-house in conjunction with the Council's treasury management advisors.

## **11. TMP11 USE OF EXTERNAL SERVICE PROVIDERS**

### **11.1. DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS**

#### **11.1.1. Banking services**

i) Name of supplier of service is Barclays Bank plc. The branch address is:

38 Bridge Street

Morpeth

Northumberland

NE61 1NL

- ii) Initial contract commenced 1 June 2015.
- iii) The contract for 5 years until 31st May 2020.
- iv) Cost of service is variable depending on schedule of tariffs and volumes

#### **11.1.2. Money-broking and Custodian services**

Name of supplier of service:

i) Sterling International Brokers Ltd

10 Chiswell Street

London, EC1Y 4UQ

ii) ICAP Europe Ltd

2 Broadgate,

London, EC2M 7UR

iii) Tullet Prebon (UK) Limited

155 Bishopsgate,

London, EC2N 3DA

iv) Tradition (UK) Ltd

Beaufort House,

15 St Botolph Street,

London, EC3A 7QX

v) King and Shaxson Ltd

Candlewick

120 Cannon Street

London, EC4N 6AS

vi) Barclays Bank PLC

Barclays Stockbrokers,

Tay House,  
300 Bath Street,  
Glasgow, G2 4LH.

vii) Link Asset Services

65 Gresham Street  
London, EC2V 7NQ

viii) BGC Brokers L.P.

One Churchill Place  
London, E14 5RD

#### **11.1.3. Consultants'/advisers' services**

Treasury Consultancy Services

i) Name of supplier of service is

Link Assets Services

65 Gresham Street

London

EC2V 7NQ

Website: [www.linkassetservices.com](http://www.linkassetservices.com)

This contract has been extended for three years to July 2019 at a total cost of £41,850.

#### **11.1.4. Leasing Consultancy Services**

Chrystal Consulting Ltd were awarded the contract for 4 years until 30 June 2019.

#### **11.1.5. External Fund Managers**

None at present.

Other Consultancy services may be employed on short term contracts as and when required.

**11.2. PROCEDURES AND FREQUENCY FOR TENDERING SERVICES**

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders See TMP2.

**12. TMP12 CORPORATE GOVERNANCE**

**12.1. LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

Annual Statement of Accounts

Annual Budget

Treasury Management Policy

Treasury Management Strategy

Annual Treasury Report