

# **SOMERSET COUNCIL**

## **TREASURY MANAGEMENT PRACTICES**

**Version 1: April 2023**

**Approved by Section 151 Officer:**

**Date:**

**Approved by Deputy Section 151 Officer:**

**Date:**

# **Introduction**

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in December 2021. The Code requires setting out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is now no longer a requirement to formally adopt the Treasury Management Code, but instead the Council is now required by law to have regard to the Code. Treasury Management is defined by CIPFA as

**‘The management of the Authority’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks’.**

The Department for Levelling Up, Housing and Communities (DLUHC) published revised statutory guidance and an informal commentary on Local Authority Investments for England in February 2018.

‘Investments’ covers all the financial assets of the Authority, as well as other non-financial assets which the Authority holds primarily or partially to generate a profit, including but not limited to commercial property. Investments will be categorised in accordance with the primary purpose of the investment.

- Treasury management investments are those investments that arise from the Authority’s cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Service investments are those held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. They may or may not involve financial returns.
- Commercial investments are those held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

Service and commercial investments assets are not managed as part of the Authority’s normal treasury management, or under treasury management delegations, and separate Investment Management Practices (IMPs) are required for these.

The Code identifies three key principles:

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

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

- (1) The Council will create and maintain, as the cornerstones for effective treasury management
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

- (2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- (3) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management
- (4) The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

The Treasury Management Practices (TMPs) comprise:

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
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
TMP 13	Environmental, Social, and Governance risk management

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

The Council has separate Investment Management Practices for Service and Commercial Investments (i.e. for investments that are not part of Treasury Management activity).

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## **TMP1 RISK MANAGEMENT**

### **General statement**

The responsible officer, currently the Executive Director – Resources & Corporate Services (Section 151 Officer), will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least semi-annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

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

#### **(1) Credit and counterparty risk management**

Somerset Council (SC) regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments. Its counterparty lists and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

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

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

SC will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

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

SC will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that 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.

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

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

## **(5) Inflation risk management**

SC will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

## **(6) Refinancing risk management**

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

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

## **(7) Legal and regulatory risk management**

SC will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 [1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

SC recognises that future 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 organisation.

## **(8) Fraud, error and corruption, and contingency management**

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

## **(9) Market risk management**

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

## **TMP2 Performance measurement**

SC is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

### **TMP3 Decision-making and analysis**

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

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of all investment decisions SC will consider the risks to capital and returns and the implications for future plans and budgets.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

### **TMP4 Approved instruments, methods and techniques**

SC will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*.

Where SC intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. SC will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate. SC with current practitioners is designated as a 'Professional' client.



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

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

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

If and when SC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule to this document. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

## **TMP6 Reporting requirements and management information arrangements**

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

As a minimum:

SC (i.e. Full Council) will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the SC treasury management policy statement and TMPs.

The Section 151 Officer will receive regular (monthly) monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

SC will report the treasury management indicators as detailed in the TM Codes sector specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

## **TMP7 Budgeting, accounting and audit arrangements**

The Section 151 Officer will prepare, Council will approve and, if necessary, from time to time amend an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management*, *TMP2 Performance measurement*, and *TMP4 Approved instruments, methods and techniques*.

The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

SC will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

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

### **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of SC will be under the control of the Section 151 Officer and will be aggregated for cash flow and treasury management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1 [2] Liquidity risk management. and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate)*

The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

### **TMP9 Money laundering**

SC is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained. The present arrangements, including the post of the officer to whom reports should be made, are detailed in the schedule to this document.

## **TMP10 Training and qualifications**

SC recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements are detailed in the schedule to this document.

## **TMP11 Use of external service providers**

SC recognises that responsibility for treasury management decisions always remains with the Council. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule to this document.

## **TMP12 Corporate governance**

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

SC has adopted and has implemented the key principles of the TM Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **TMP13 Environmental, Social, and Governance risk management**

Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies. It is not expected that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

## **INVESTMENT MANAGEMENT PRACTICES FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY**

**Investments for service purposes (or service investments)** are taken or held primarily for the provision and for the purposes of delivering public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

Service investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.

For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

**Investments for commercial purposes (or commercial investments)** are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

This includes non-financial assets such as commercial property, where they are held primarily for financial return.

For local authorities, investments of this type will usually constitute capital expenditure.

‘Commercial’ in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily to generate net financial return or profit.

The Section 151 Officer will categorise any non-treasury management investments and plans into appropriate portfolios (or individual major investments) reflecting the different purposes, objectives and management arrangements of the investments and covering all the organisation’s financial investments, together with any non-financial assets that are held primarily for financial return (such as commercial property).

For each such portfolio, a schedule sets out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

It is recognised that the risk appetite for these activities may differ from that for treasury management.

### TMP1: RISK MANAGEMENT

#### 1.1 Credit and counterparty risk management

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Council recognises its responsibility to the prudent management of public funds and follows relevant Government guidance. The Department for Levelling-Up, Housing, and Communities (DLUHC) issued guidance on Local Government Investments under section 15(1) of the LGA 2003. This has been revised and revisions are effective from 1<sup>st</sup> April 2018. The overriding aim of the guidance is to encourage authorities to invest prudently, without burdening them with detailed prescriptive regulation.

The guidance defines a prudent investment policy as having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest yield consistent with those priorities. This widely recognised investment policy is sometimes more informally and memorably expressed as follows:

***Security - Liquidity -Yield ...in that order!***

Consequently, SC will seek to optimise returns commensurate with the management of the associated risks.

### **1.1.1 Criteria to be used for creating and managing an approved counterparty list and limits**

The Section 151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct criteria comprising time, type, sector and specific counterparty limits.

Treasury Advisors will provide guidance and assistance in setting the criteria.

Members will approve criteria at least annually, as part of the Treasury Management Strategy (TMS).

Credit ratings remain a key source of information, but it is important to recognise that they do have limitations. Credit ratings are only used as a starting point when considering credit risk.

Officers will use credit rating criteria in order to assist selection of creditworthy counterparties for placing investments with. Credit ratings will be used as sourced from all of the following credit rating agencies:

- Fitch Ratings
- Moody's
- Standard & Poor's

The Council will use ratings and information from all three ratings agencies where available (some institutions are only rated by one agency, some by two, some by all three), as part of its counterparty criteria.

SC will remain vigilant to changes in ratings, with reference to information available on the website of the three rating agencies and other sources. All ratings for any proposed counterparty will be verified on the day, before any investment is made. The only exception to this will be when an additional deposit of less than £5m is made to an existing call, or money market fund account.

If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. Changes to ratings of current and most often used counterparties are also highlighted at the regular TM meeting. Any changes to ratings that put the counterparty below the rating criteria whilst they hold a deposit will be brought to the attention of the Section 151 Officer immediately, with an appropriate response decided on a case-by-case basis.

If any counterparty is placed on Rating Watch Negative, further deposits will be suspended until the reasons have been established. Further action will depend on the current rating and possible re-rating. This will be closely monitored with an appropriate response decided on a case-by-case basis.

Sovereign credit ratings will be monitored and acted on as for financial institution ratings.

Current counterparty criteria can be found in TMS and appendix B to the TMS that is agreed by Full Council each year.



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

All ratings of currently approved counterparties are reported at regular TM meeting. Proposals for any new counterparties will be discussed and agreed at this meeting. E-mail confirmation, or a letter to the counterparty will be obtained from the Section 151 Officer, and the decision recorded in the minutes of the meeting. Limits are approved annually as part of the TMS and any revision to these would require Full Council approval.

### **1.1.3 List of approved counterparties and date of formal approval**

In order to ensure that the approved counterparty list is at all times up to date, a separate schedule will be kept (Schedule N). As soon as a change is authorised by the Section 151 Officer, this will be updated.

### **1.1.4 Country, sector, and group listings and limits**

These form part of the TMS and appendix B to the TMS that is approved by Full Council each year.

### **1.1.5 Use of credit rating agencies' services**

SC is a registered user of all three stated rating agency websites. It does not subscribe to the detailed research element, but has free access to all ratings, and notification of ratings changes.

### **1.1.6 Use of other sources of information for risk assessment**

The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests. To supplement information from ratings agencies, relevant information from various publications is continuously garnered and assessed to help build a bigger picture, to help identify generic and specific counterparty risk.

As had previously been the case with SC and is now a requirement of the revised DLUHC guidance, SC will use a range of indicators to assess counterparties, not just credit ratings. Among other indicators to be taken into account will be:

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions, i.e. bail-in.
- Share Price of listed institutions.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Underlying securities or collateral for 'covered instruments'.
- Other macroeconomic factors.

Supplementary information is sourced daily by reference to the quality press, Internet sources, Bloomberg terminal, and emails from broking and investment houses. There is also regular ongoing contact with a panel of money market brokers, money market fund managers, and other investment industry specialists.

## **1.2 Liquidity risk management**

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of SC to carry out its functions or disrupt those functions being carried out in the most cost-effective manner. The Section 151 Officer will therefore have sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. They will also seek to ensure that SC cash flow forecasting gives as accurate a picture as possible of the movement and timing of income and expenditure and the resulting residual daily cash balances.

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

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing, calling on Call A/c or Money Market Fund balances, or lending shall be arranged in order to achieve this aim.

### **1.2.2 The Council has the following facilities available:**

**Standby facilities** – SC operates a number of call accounts, each with differing features in relation to minimum balances to be maintained, number of permitted withdrawals during certain periods, and rates paid. SC will retain balances within these accounts only when it is more advantageous than placing them on short-term deposits.

**Bank overdraft arrangements** - An overdraft at 1.00% over Bank of England base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts and is agreed annually via a formal document signed by the Section 151 Officer.

**Short-term borrowing facilities** - The Council can access temporary loans through approved brokers on the London money market.

**Insurance/guarantee facilities** - There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

### **1.2.3 Policy on borrowing in advance of need**

The overriding objective for all approved borrowing is that it will be carried out in line with the CIPFA TM Code, i.e. that performance measurement should consider risk as well as return (borrowing rate). Priority will be given to risk management, and then the pursuit of minimising rate. There are many circumstances that may force borrowing at rates higher than the lowest achievable rate but may be directly attributable to good risk management or differing risk tolerances. These may include:

- Taking loans of a stated maturity regardless of rate to ensure the desired maturity profile and thereby reduce refinancing risk.
- Taking Lender's Options Borrower's Option (LOBO) loans with greater regard to the structure rather than the cheapest rate where optionality exposes the Authority to refinancing, liquidity, and interest rate risk.
- Taking LOBO loans that dovetail with existing LOBO optionality.
- It may not be policy to borrow in advance of need even though it may be generally accepted that rates will go higher in the near future.
- It may be prudent to wait until capital expenditure has been incurred before loans are taken, even though rates may increase in the interim.

Actual borrowing undertaken and the timing will depend on timing of income and capital expenditure, interest rate forecasts, and market conditions during any given year. This may include borrowing in advance if after suitable risk analysis (including evaluating the cost of carry), market conditions and interest rates are deemed advantageous at that time. The short-term investment of these monies, until they are needed, will follow the same rigorous policies and criteria as the rest of the Council's investment balances.

## **1.3 Interest rate risk management**

### **1.3.1 Interest Rate Monitoring**

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in the income contained in the annual estimates. The Section 151 Officer will seek to minimise this risk by continuously monitoring interest rates, and particularly the economic indicators that influence their movement. As well as daily contact with a number of brokers, the opinions of expert analysts are sourced through various market publications.

The direction and timing of potential interest movements and their implications for SC are discussed at the regular TM meeting. A 'house view' is then taken and recorded in the minutes.

### **1.3.2 Interest Rate Strategy**

Appropriate strategy, limits and trigger points are set in light of interest rate expectations and are incorporated into the Treasury Management Strategy. Strategy, limits, and trigger points will be monitored during the relevant year to identify whether modifications are required in light of actual movements in interest rates.

The proportion of fixed and variable rate debt will be considered as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The Council will consider matching the level of borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. The proportion will be kept under review on a regular basis.

SC may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.

Alternatively, SC may consider forward starting loans where the interest rate is agreed and fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a 'cost of carry' in the intervening period.

### **1.3.3 Trigger points for borrowing/investments**

Trigger points and other guidelines for taking advantage of changes to interest rate levels are discussed at the regular TM meeting and decisions are recorded in the minutes.

Officers will review the Treasury Management Strategy during the year to see whether any modifications are required in the light of actual movements in interest rates.

### **1.3.4 Policies concerning the use of instruments for interest rate management**

**Forward dealing** - Consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing is more than three months forward, the approval of the Section 151 Officer is required.

**Structured Investments** - The Council may use Callable deposits, Snowballs, Escalators, Range Trades, or other such structured investments as it deems prudent, as part of its overall investment portfolio strategy. The limits for their use in any given year will be set out in the TMS and appendix B to the TMS.

### **1.3.5 Policy concerning the use of derivatives for interest rate risk management**

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require Full Council approval.

## **1.4 Exchange rate risk management**

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes. It will also seek to minimise what risk it does have by using the policies below.

### **1.4.1 Approved criteria for managing changes in exchange rate levels**

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

SC maintains a Euro account with its current bankers. This allows income to be received without incurring exchange costs for each transaction. A number of one-off, and recurring monthly payments are also made from the account. A relatively small balance is maintained, for which interest is received.

The Council will consider the use of a hedging strategy to control and add certainty to the sterling value of any transactions, if values are judged by the Section 151 Officer to be significant.

## **1.4.2 Policy concerning the use of derivatives for exchange rate risk management**

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

## **1.5 Inflation risk management**

### **1.5.1 Investments over 1 year.**

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

## **1.6 Refinancing risk management**

Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. These budgets have therefore been set at a level after considering as many factors and rate forecasts as possible and this risk has thus been reduced to a level that is perceived as acceptable.

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

The Council will establish through its Prudential Indicators the amount of debt maturing in any year/period.

To assist with long-term borrowing decision making the Council creates, with advice and assistance from its treasury advisor, a '**Liability Benchmark**' (**LB**) which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

The LB is represented as a graph in the annual treasury management strategy. It will be updated regularly by the Council in conjunction with the treasury management advisors with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.

Avoiding a concentration of loan maturities in a single financial year or over any 2-3 year period will reduce the risk of having to refinance at a time when interest rates are unfavourable to the Council.

Any debt rescheduling will be considered 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:

- The generation of cash savings at minimum risk.
- To reduce the average interest rate.
- To amend the maturity profile and /or the balance of volatility of the debt portfolio.

### **1.6.2 Projected Capital Financing Requirement**

The Section 151 Officer will prepare a three-year plan for capital expenditure for the Council. This is approved by members. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges.

Under the new capital financing system, the definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice.

### **1.6.3 Policy concerning limits on affordability and revenue consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on Council tax. It will also take into account affordability in the longer term beyond this three-year period.

## **1.7 Legal and regulatory risk management**

Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

### **1.7.1 References to relevant Statutes and Regulations**

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The major relevant documents currently are:

- Local Government Act 2003
- Localism Act 2011 (in relation to general power of competence)
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and subsequent amendments
- The Local Authorities (Contracting out of Investment Functions) Order 1996 and subsequent amendments
- DLUHC Statutory Guidance on Local Government Investments (2018 Edition)
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 Edition) and Guidance Notes for Local Authorities
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition) and Guidance Notes for Practitioners
- Relevant CIPFA Bulletins
- Bank of England Money Markets Code (2021 Edition) and Explanatory Notes
  
- Council's Constitution including:
  - Standing Order relating to Contracts
  - Financial Regulations
  - Scheme of Delegation

### **1.7.2 Procedures for evidencing the Council's powers/authority to counterparties**

The Council's powers to borrow and invest are contained in legislation as follows:

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

SC will bring this to the attention of interested counterparties as necessary. Evidence of the SC scheme of delegation, and the individual officers authorised to deal on behalf of the Council is sent to new counterparties.



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

Lending will only be made to counterparties who fulfil the prevailing counterparty criteria.

When lending directly to a new counterparty, a list of permitted contacts is requested, along with Standard Settlement Instructions (SSIs) and bank details on headed paper.

When lending via a broker we rely on the broker to provide bank details and payment instructions.

### **1.7.4 Statement on the Council's political risks and management of same**

The Section 151 Officer shall take appropriate action with the Council, the Chief Executive, and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc..

### **1.7.5 Responsibility for ensuring legality of Treasury Management function**

The Monitoring Officer is the Service Director - Governance, Democratic and Legal Services. The duty of this officer is to ensure that the treasury management activities of the Council are lawful.

The Chief Financial Officer (Section 151 Officer) is the Executive Director - Resources and Corporate Services; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

## **1.8 Fraud, error and corruption, and contingency risk management**

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements that identify and prevent losses through such occurrences.

### **1.8.1 Fraud, Corruption, and Anti-Money Laundering Policies and Practices**

The Council has a fraud and corruption, and an anti-money laundering policy in place. All members of the Investments team are familiar with the policies, which are posted on the SC Internet site.

The Council is committed to the use of procedures and practices that will reduce the risk of the above, and will therefore:

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal procedures that minimise such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

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

#### **Authority**

The Scheme of Delegation to Officers sets out the delegation of duties to officers. All loans and investments are negotiated by the Principal Investment Officer, or in his absence, the Funds and Investments Manager or the Senior Investment (the dealer).

Cash movements and justification for Loan(s) are verified by one of a panel of checkers, with resulting CHAPS, BACS, International payments and Inter-Account Transfers being authorised by a designated senior finance officer, via Nat West proprietary on-line systems, using passwords and CHIP & PIN technology.

## **Procedures**

A fully documented procedures guide is kept for reference. This provides a very brief and simplified outline of the key stages for daily Treasury Management.

Overall daily balances are determined from downloaded bank information. ENPA and SWRB balances are separately identified and transfers to or from the main SC bank account are affected to bring balances back to zero.

Payments or receipts of loans or loan interest are identified via the Treasury Management database.

Other payments / receipts are identified from the cash flow element of the TM database and other sources.

Excess cash will be invested according to security of investment, liquidity needs and prevailing market rates. Shortfalls will be covered by money in call accounts or short-term borrowing.

## **Investment and borrowing transactions**

A detailed register of all loans and investments is maintained in the TM database. This is updated immediately after loans have been agreed. Accuracy of this is verified by the daily checking process.

Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the dealer for resolution. This acts as a second verification for accuracy of the database.

A broker note showing details of the loan arranged confirms all transactions placed through brokers. Any discrepancies are immediately reported to the broker, for resolution.

## **Regularity and security**

Lending is only made to institutions that fulfil the relevant counterparty criteria.

The TM database prompts the dealer that money borrowed or lent is due to be repaid.

All loans raised and repayments made go directly to and from the bank account of approved counterparties.

Counterparty limits are set for every institution that the Council invests with.

Brokers have a list of SC counterparty criteria and named officials authorised to agree deals.

Counterparties with whom SC deals directly have a list of officials authorised to agree deals.

There is a separation of duties in the section between dealers and the checking and authorisation of all deals.

No member of the treasury management team is an authorised signatory for payments made from any SC bank account.

Payments are verified by one of a panel of checkers. Payments entered onto the Nat West proprietary system can only be authorised by nominated senior officers.

The Nat West Bankline system can only be accessed by password, and authorisation can only be achieved by using CHIP & PIN technology.

## **Checks**

One of a panel of checkers verifies that all daily cash movements are accurate, complete, and duly authorised.

Entries to the loans database are checked for accuracy and completeness. Reports are presented showing loans outstanding and current balances with counterparties, highlighting the loans made that day, and their effect on balances held with counterparties.

Where investments are made, current ratings of counterparties are attached to loan documentation, giving the checker and ultimately the authoriser, opportunity to verify the counterparty creditworthiness.

Entries onto the Nat West system are checked for accuracy and completeness, giving an opportunity for challenge of details.

Bank reports are monitored and retained, showing the progressive status of payments. Any variances are immediately investigated and resolved.

A reconciliation of payments and receipts is carried out daily from the bank statement to the TM database, and periodically to the financial ledger.

Interest, both paid and received is periodically reconciled to bank statements and the financial ledger.

## **Calculations**

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the TM database.

## **Use of Internet Services**

The Internet is used for a variety of functions performed during the course of treasury management. The application and the security of SC instructions and data are paramount. To this effect, all proposed new systems are discussed and risk-assessed in conjunction with the Internal Audit team at SC, prior to their use.

### **1.8.3 Emergency and Contingency Planning arrangements**

#### **Disaster Recovery Arrangements**

All computer files are backed up on the dedicated Investments team server. All systems input is filed separately until a backup of data is taken each night. Having a dedicated server enables files to be accessed from remote sites.

In the event of massive systems failure, SC personnel can work offsite via VPN.

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

The Council has 'Fidelity' insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

The Council also has a 'Professional Indemnity' insurance policy, which covers loss to third parties from the actions and advice of its Officers, which are negligent and without due care. This cover is limited to £10m for any one event with an excess of £100,000. The Council also has a 'Business Interruption' cover as part of its property insurance.

### **1.9 Market value of investments risk management**

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

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

Gilts, Commercial Paper, CD's and Money Market Funds (MMFs) are among the products that SC may use, that pose market risk.

The Council may consider an investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors. The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the Council's annual investment strategy.

**TMP 2 PERFORMANCE MEASUREMENT****2.1.1 Policy concerning methods for testing value for money**

Best value reviews will include reviews of the way services are provided by:

- Challenging
- Comparing performance
- Consulting with other users and interested parties
- Applying competition principles

In order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

**2.1.2 Policy concerning methods for performance measurement**

Performance measurement at the Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.

Prudential Indicators are specific to the Council and not intended as a comparator between authorities.

The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy (i.e. the Council will avoid hindsight analysis).

Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:

- Allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and
- permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.

In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

### **2.1.3 Periodic reviews during the financial year**

The Section 151 Officer holds a treasury management review meeting with senior members of the investments team on a regular basis, to review actual activity against the Treasury Management Strategy and cash flow forecasts. This will include:

- Evaluation of borrowing activity during the period under review.
- Total debt including average rate and maturity profile.
- Total investments including average rate and maturity profile.
- Changes to the above from the previous review and against the TMS.
- Counterparty exposure.
- Exposures relative to Prudential Indicators.
- Future interest rates and strategy are discussed.

### **2.1.4 Mid-year review**

A Mid-year Review is submitted to Full Council, which reviews all activities involving the treasury management operation for the first six months of the year. This report contains the following:

- Total debt and investments at the beginning of the year and at mid-year.
- Borrowing activity for the 6-month period compared to strategy.
- Investment activity for the 6-month period compared to strategy.
- Explanations for variance between original strategies and activities.
- Debt rescheduling undertaken in the period.
- Actual borrowing and investment rates available through the period.
- Comparison of return on investments to the investment benchmark.
- Compliance with Prudential Indicators.
- Other

### **2.1.5 Annual Review after the end of the financial year**

An Annual Treasury Outturn Report is submitted to Full Council each year after the close of the financial year, which reviews all activities involving the treasury management operation. This report contains the following: -

- Total debt and investments at the beginning and close of the financial year and average interest rates.
- Borrowing activity for the year compared to strategy.
- Investment activity for the year compared to strategy.
- Explanations for variance between original strategies and activities.
- Debt rescheduling done in the year.
- Actual borrowing and investment rates available through the year.
- Comparison of return on investments to the investment benchmark.
- Compliance with Prudential Indicators.
- Other

## **2.1.6 Comparative reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential Indicators are locally set). Data used can be sourced from:

- CIPFA Treasury Management statistics published each year for the last complete financial year.
- Treasury Advisors

When comparing outcomes, it is most important to find out why any variance from other Local Authorities is occurring, and to understand the relative risks of the portfolios. In drawing any conclusions, the Council will consider that the risk characteristics of other treasury management operations may differ from those of the Council's. Factors to consider are:

- Use of different counterparties, by type and name.
- Differing views on, and suitability of duration, at a portfolio and counterparty level.
- Levels of cash to be invested.
- Different advice of Treasury Advisors.
- Availability and suitability of various instruments.

## **2.2 Benchmarks and calculation methodology with regard to risk and return**

### **2.2.1 Debt management**

The overriding objective for approved borrowing is that it will be carried out in line with the CIPFA TM Code, i.e. that performance measurement should consider risk as well as return (borrowing rate). Priority will be given to risk management, and then the pursuit of minimising rate. There are many circumstances that may force borrowing at rates higher than the lowest achievable rate but may be directly attributable to good risk management or differing risk tolerances. These may include:

- Taking loans of a stated maturity regardless of rate to ensure the desired maturity profile and thereby reduce refinancing risk.
- Taking Lender's Options Borrower's Option (LOBO) loans with greater regard to the structure rather than the cheapest rate where optionality exposes the Authority to refinancing, liquidity, and interest rate risk.
- Taking LOBO loans that dovetail with existing LOBO optionality.
- It may not be policy to borrow in advance of need even though it may be generally accepted that rates will go higher in the near future.
- It may be prudent to wait until capital expenditure has been incurred before loans are taken, even though rates may increase in the interim.



There are simple performance benchmarking measures available, i.e. debt rate achieved in relation to average PWLB rates for the year, for any given maturity and type of loan. However, it is suggested that each loan be looked at individually to develop an appreciation of the factors influencing performance, with a view to improving the future processes of treasury decision-making.

CIPFA produces detailed reports of our performance compared with other authorities. Whilst these headline figures can be a useful guide in assessing performance, they should not be seen in isolation. It is important to also assess performance against the stated objectives and specific needs of SC during the year, and to take a wider view in relation to timeframes and overall risk management. There are many factors that affect treasury performance that are not apparent from the CIPFA reports.

It will be highlighted that each authority will have different needs during any given year. For example, a large capital requirement in a year when borrowing rates are high can have an enormous adverse effect on the overall portfolio performance for years to come. Conversely, a high rate loan that drops out of a small portfolio can make performance look extremely impressive in a year when no activity was undertaken.

The CIPFA reports look at one year in isolation. LOBOs can be taken and reported with a reduced rate initially, but with a big increase after an initial period that is not apparent in the reporting period.

The above caveats aside, these reports can offer insight into specific areas of debt and can be used to challenge and inform prevailing strategy and tactics.

## **2.2.2 Investment**

The overriding aim of SC is in line with DLUHC guidance, i.e. to invest prudently. The guidance defines a prudent investment policy as having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). It goes on... "Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest yield consistent with those priorities".

Similar to the debt portfolio, these headline figures can be a useful guide in assessing performance but should not be seen in isolation. It is important to take a wider view in relation to timeframes and overall risk management.

There may be different priorities to satisfy revenue or capital requirements. If revenue interest is the priority in a low interest rate environment, the need for extra yield may influence investment decisions.

Overall policy and risk appetite will differ, as will the techniques and tools used to achieve objectives, and as part of risk management.

## **2.3 Policy concerning best value in Treasury Management**

### **2.3.1 Banking services**

The Council's current banking arrangements are for a four-year contract starting in April 2021. Pricing is to be reviewed regularly to ensure that tariffs, and volume of transactions used for tariffs continue to be value for money and appropriate respectively.

### **2.3.2 Money-broking services**

In addition to direct dealing with counterparts, use is made of 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 (if borrowing is required) and quality of services.

### **2.3.3 Consultants'/advisers' services**

Arlingclose Ltd, have been treasury advisors to SC since 2009. They provide ongoing independent analysis and advice on market and investment conditions, and the suitability of counterparties among other services. The full schedule of services they provide can be found at 11.1.3.

SC recognises, as per CIPFA guidance, that, "the overall responsibility for treasury management must always remain with the Council". SC has always performed its own analysis of market and investment conditions, and the suitability of counterparties. It continues to do so through embedded practices, thereby maintaining the skills of the in-house team. This ensures that services provided by advisors can be challenged, and that undue reliance is not placed on them.

### **2.3.4 Policy on External Managers (Other than relating to Pension Fund)**

The delegation of investment management, if appointed, to external managers will entail the following:

- Formal contractual documentation.
- Agreement on terms for early termination of the contract.
- Setting of investment instruments, constraints/parameters/conditions.
- Setting of investment counterparty limits.
- Setting a performance measurement benchmark and a performance target.
- Frequency of performance reporting.
- Frequency of meetings with investment managers.

The activities of any appointed external manager will be regularly reviewed by the Section 151 Officer and reported appropriately.

**TMP 3 DECISION-MAKING AND ANALYSIS****3.1 Funding, borrowing, lending, and new instruments / techniques****3.1.1 Records to be kept**

The Treasury section has a dedicated database system (Logotech), in which all investment and loan transactions are recorded. The following records will be retained:

- Daily cash balance forecasts.
- Rates available on the day, from two brokers (to support investment decision).
- Copy of dealing sheet highlighting rates quoted from direct counterparties, and that sufficient headroom is available for proposed investment.
- Confirmation of counterparty ratings.
- Deal ticket for all money market transactions.
- List of outstanding investments and counterparty limits.
- Brokers' confirmations for investment and temporary borrowing transactions.
- Confirmations from borrowing / lending institutions.
- Other documentation as required to support the decision, i.e. PWLB rates if LOBO taken.

**3.1.2 Processes to be pursued**

- Ongoing review of economic factors, and analysis of their impact re opportunities and threats to the debt and investment portfolios.
- Cash flow forecasting and analysis.
- Debt and investment maturity analysis.
- Review of opportunities for debt restructuring.
- Review of borrowing requirement to finance capital expenditure
- Performance information (e.g. monitoring of actual against budget for debt charges and interest earned).

**3.1.3 Issues to be addressed****3.1.3.1 In respect of every treasury management decision made the Council will:**

- Above all be clear about the nature and extent of the risks to which the Council may become exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

### **3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

- Evaluate economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow.
- Consider the sources of borrowing, alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships to minimise costs and risks.
- Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- Seek to reduce the overall level of financing costs / smooth maturity profiles through debt restructuring.

### **3.1.3.3 In respect of investment decisions, the Council will:**

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.
- Determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

### **3.1.3.4 Use of the Liability Benchmark**

The Liability Benchmark is a long-term measure of the underlying need to borrow for all purposes and is based on the current capital programme and other forecast cash flow movements.

It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long-term borrowing (or long-term investments, if the Council is a net investor) are more appropriate.

To determine future years' debt requirement or, conversely, monies available for longer-term investment, the Council will estimate and measure the LB for 50+ years. It is presented as a chart of four balances:

- the Council's current and projected Loans CFR and MRP,
- existing loan debt (does not include forecast debt),
- net loans requirement, taking into account balance sheet resources, and
- liability benchmark, which also takes into account the Council's required liquidity allowance.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment.

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

**4.1 Approved activities of the Treasury Management operation**

- Borrowing
- Lending
- Debt repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities
- Managing cash flow
- Banking activities
- Leasing

**4.2 Approved instruments for investments**

As investment instruments are constantly being developed and evolved by financial institutions, staff will keep abreast of developments and report to the regular TM meeting, those that it feels may be considered for use by SC. The Section 151 Officer has the delegated authority to approve the use of any such investments, subject to what has been approved by members in the TMS, and prudential limits.

Those currently used, or that are proposed to be used in the next year, will be detailed in the TMS approved by Full Council each year.

**4.3 Approved techniques**

- Forward dealing
- The use of Snowballs, Range Trades, Escalators, Callable deposits, or any other structured investment approved by the Section 151 Officer

#### **4.4 Approved methods and sources of raising capital finance**

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loans Board)\*
- long term money market loans including forward starting loans
- temporary money market loans (up to 364 days)
- bank overdraft
- loans from bodies such as the European Investment Bank (EIB)
- stock issues
- deferred purchase
- Government and EU capital grants
- lottery monies
- other capital grants and contributions
- private finance Initiative
- operating and finance leases
- hire purchase
- sale and leaseback

\* HM Treasury has issued new guidance regarding PWLB lending which will apply to any loan arranged from 26 November 2020.

<https://www.dmo.gov.uk/media/17136/pwlb-guidance-for-applicants.pdf>

The Council may also use internal resources:

- Capital Receipts
- Revenue Balances
- Reserves

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has authority to take the most appropriate form of borrowing from the approved sources.

#### **4.5 Investment limits**

The TMS sets out the limits and the guidelines for use of each type of investment instrument.

#### **4.6 Borrowing limits**

See the TMS and Prudential Indicators for any agreed annual limits.

## 4.7 Issues to be addressed when considering treasury activities

In exercising treasury activities, officers will:

- have regard to the nature and extent of any associated risks to which the Council may become exposed and put in place effective mechanisms for risk management and mitigation;
- be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
- be satisfied that the documentation is appropriate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
- ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits;
- be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; and
- follow best practice in implementing the treasury transaction.

In exercising borrowing and funding decisions, officers will:

- evaluate economic and market factors that may influence the manner and timing of any decision to fund;
- evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Council's planned borrowing needs (e.g. by use of a liability benchmark);
- consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
- consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use;
- consider ongoing revenue liabilities created; and
- where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

The Council's objective when investing money is to strike **an appropriate balance between risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In exercising Investment decisions, officers will:

- Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
- consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
- the credit risk associated with unsecured investments with banks and building societies;
- consider whether monies can be used in lieu of external borrowing; and
- consider the alternative investment products and techniques available if appropriate.

## **4.8 Use of Derivatives**

The revised CIPFA TM code requires that the Council must explicitly state whether it plans to use derivative instruments to manage risks.

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require Full Council approval.

In developing a risk management framework governing the use of derivatives, SCC Officers would need to:

- ensure full understanding of the product(s);
- demonstrate the derivative transaction has reduced overall exposure to treasury risks; and
- consider whether officers have the skills and experience to identify, evaluate and control the risks involved.



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

**5.1 Limits to responsibilities / discretion at Council / Executive levels**

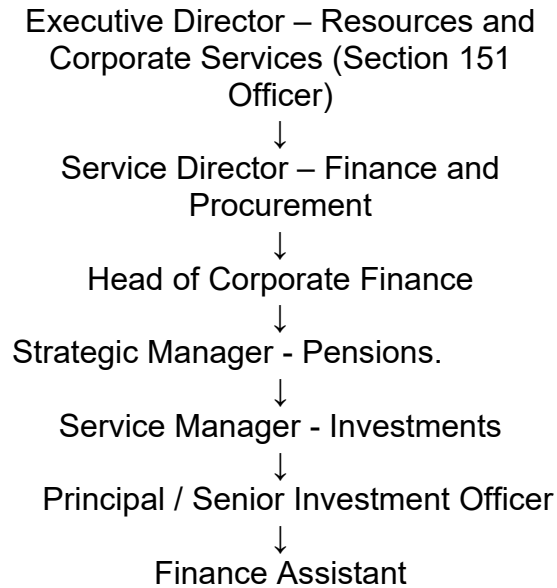
- Full Council will approve the Prudential Indicators and revise them as and when necessary.
- Full Council will receive and review reports on treasury management policies, strategies, and activities.
- The Section 151 Officer will be responsible for amendments to the Council’s adopted clauses, treasury management policy statement and treasury management practices.
- The Section 151 Officer will approve the segregation of responsibilities.
- The Section 151 Officer or Deputy Section 151 officer will receive and review internal and external audit reports and put recommendations to the Audit Committee.
- Approving the selection of external service providers and agreeing terms of appointment will be decided by the Section 151 Officer.

**5.1.1 Principles and practices concerning segregation of duties**

Separate officers must undertake the following duties:

Dealing	Negotiation and approval of deal – Dealer Receipt and checking of brokers confirmation note against loans diary – Finance Assistant Reconciliation of cash control account – Corporate Accounting Team (CATS) Bank reconciliation – CATS (2)
Checking	Verification of accuracy of information and legitimacy of payments - Panel of approved senior finance officers
Payment of Deal Accounting Entry	Entry onto system - Dealer Approval and payment – Approved authorisers Production of transfer note – Dealer Processing of accounting entry – Cashiers / CATS

## 5.1.2 Treasury Management organisation chart



## 5.2 Statement of duties / responsibilities of each treasury post

### 5.2.1 The Director of Finance (Section 151 Officer)

The Executive Director – Resources and Corporate Services (Section 151 Officer) will:

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- In setting the prudential indicators, the Section 151 Officer will be responsible for ensuring that all matters are taken into account and reported to the Executive so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
- Establish a measurement and reporting process that highlights significant variations from expectations.
- Make reports to the Executive under S114 of the Local Government Finance Act 1988 if the Section 151 Officer considers the Council is likely to get into a financially unviable situation.
- Recommend treasury management policy, strategy, and practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- Submit treasury management reports as required to the Full Council.
- Review the performance of the treasury management function and promote best value reviews.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit and liaise with external audit.
- Recommend on appointment of external service providers in accordance with Council standing orders.

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.

The Section 151 Officer may delegate his power to borrow and invest to members of his staff. The Treasury Management Team must conduct all dealing transactions, or staff authorised by the Section 151 Officer to act as temporary cover for leave/sickness.

The Section 151 Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Section 151 Officer to be satisfied, by reference to the Monitoring Officer and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is also the responsibility of the Section 151 Officer to ensure that the Council complies with the requirements of The Bank of England's 2021 Money Markets Code for principals and broking firms in the wholesale markets.

The Section 151 Officer may delegate some or all of the above duties that do not fall under the responsibility of the Section 151 Officer, to the Deputy Section 151 Officer.

#### **5.2.2 The Investments Team will be responsible for:**

- Execution of transactions and conduct of other day-to-day activities in accordance with the Treasury Management Practices.
- Adherence to agreed policies and limits.
- Managing the overall treasury management function.
- Ensuring appropriate segregation of duties.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Section 151 Officer.
- Maintaining relationships with third parties and external service providers and reviewing their performance.

#### **5.2.3 The Monitoring Officer – The Service Director for Governance, Democratic and Legal Services**

The responsibilities of this post will be:

- Ensuring compliance by the Section 151 Officer with the treasury management policy statement and treasury management practices, and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Section 151 Officer when advice is sought.

#### **5.2.4 Internal Audit**

The responsibilities of Internal Audit will be: -

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

In all cases, audits will be conducted using a risk-based approach, identifying, assessing, and recommending mitigation actions relating to treasury management risks.

#### **5.3 Absence cover arrangements**

In the absence of the Principal Investment Officer, the responsibility for day-to-day operations of the Treasury Management function rests with the Service Manager - Investments or the Senior Investment Officer.

#### **5.4 Dealing limits**

To ensure flexibility and maximum continuity, there are no dealing limits for individual posts.

#### **5.5 List of approved brokers**

A list of approved brokers is maintained within the Treasury Management Team and a record of all transactions recorded against them. See TMP 11.1.2.

#### **5.6 Policy on brokers' services**

It is the Council's policy to allocate business between brokers on an equitable basis whenever possible. However, for similar levels of counterparty risk and liquidity, the broker with the most advantageous rate will be used.

#### **5.7 Policy on taping of conversations**

It is the Council's policy not to tape conversations with counterparties or brokers.

## **5.8 Direct dealing practices**

The Treasury Management team deal directly with counterparties in addition to the use of money brokers. A copy of the counterparty Standard Settlement Instructions (SSIs) is required before funds are placed.

## **5.9 Settlement transmission procedures**

All settlements are dealt through the Clearing Houses Automated Payments System (CHAPS) via the SC bankers' proprietary system. After checking for accuracy and authenticity of counterparty bank details by the checker, one of a pool of authorised signatories sends the payment raised by the Dealer.

## **5.10 Documentation requirements**

For each deal undertaken a record is entered into the TM database, giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), and broker. A print of each deal is attached to the pack of papers along with a revised balances outstanding report and a revised counterparty limits report. Prints of the proposed counterparty rating(s) are also attached. These documents are verified before payments are sent.

Any breach of counterparty limit is referred to the Section 151 Officer or other senior officer, who has the discretion to authorise the breach, dependent on circumstances.

## **5.11 Arrangements concerning the management of counterparty funds**

SC has a contract to provide treasury management services to the Police and Crime Commissioner for Avon and Somerset. It manages these funds on a segregated basis under contractual arrangements.

SC manages funds on behalf of Exmoor National Park Authority, and the South West Regional Board. This money is managed on an aggregated funds basis under terms agreed in a Service Level Agreement.

SC may from time to time manage funds for other public or not-for-profit organisations, in which case, an appropriate SLA would be put in place.

**TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS****6.1 Annual Treasury Management Strategy**

The TMS sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to Full Council for approval before the commencement of each financial year. It will also be made available to the Audit Committee.

The formulation of the annual TMS involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.

The TMS is concerned with the following elements:

- External Context
  - Economic background
  - Credit outlook
  - Interest rate forecast
  
- Internal Context
  - Current Treasury portfolio position
  - Borrowing requirement
  - Borrowing strategy
  - Debt rescheduling
  - Investment strategy
  - Prudential Indicators
  - Any extraordinary treasury issue

The TMS will take into account expected moves in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and consider sensitivities in different scenarios.

**6.2 Prudential Indicators**

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential Indicators.

The Section 151 Officer is responsible for incorporating these limits into the annual TMS, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Section 151 Officer shall submit the changes for approval to the Council.

### **6.3 Mid-year review of activity**

A mid-year report will be presented to Full Council at the earliest practicable meeting after the end of the first half of the financial year. This report will include the following:

- Movement in the debt and investment portfolios during the first six months.
- Significant transactions executed.
- Measurements of performance.
- Monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements, and reporting of any deviations.
- Risk management.

### **6.4 Annual report on Treasury Management activity**

An annual report will be presented to Full Council at the earliest practicable meeting after the end of the financial year. This report will include the following: -

- A comprehensive picture for the financial year of all treasury policies, strategies, activities and results.
- Movement in the debt and investment portfolios during the year.
- Significant transactions executed.
- Measurements of performance.
- Monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements, and reporting of any deviations.
- Risk management.

### **6.5 Management information reports**

Management information reports will be prepared at monthly intervals by the Treasury Management Team and will be presented to the Section 151 Officer at regular meetings. The reports are used to inform discussion on current, future, and potential risks, past performance and future tactics and operations. They focus on the risks to the achievement of TM objectives, and the tools, techniques, and tactics to mitigate risks.

Management reports will contain the following information:

- Movements in interest and money market rates and the yield curve.
- Movements in SC cash, cash balances, and types of deposit made.
- Performance of investments.
- Current debt portfolios, including analysis of market loans.
- Movements in PWLB and market rates and opportunities / threats arising.
- Current and changes (actual and potential) to ratings of current and potential counterparties.
- Analysis of risk metrics for investment portfolios.
- Compliance with Prudential limits and other stated policies, strategies, codes of practice, and practices.
- Any other treasury management business.

**TMP 7 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 Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to the Council's treasury management activities.

**7.2 Accounting Practices Standards**

Due regard is given to the CIPFA Code of Practice on Local Authority Accounting Practices.

**7.3 Sample budgets / accounts / Prudential Indicators**

The Section 151 Officer will prepare a three-year medium-term financial plan with Prudential Indicators for treasury management, which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Section 151 Officer will exercise effective controls over this budget and monitoring of performance against Prudential Indicators and will report upon and recommend any changes required in accordance with TMP6.

**7.4 List of information requirements of external auditors**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records.
- Maturity analysis of loans outstanding.
- Certificates for new long-term loans taken out in the year.
- Reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type.
- Calculation of loans fund interest and debt management expenses.
- Details of interest rates applied to internal investments.
- Calculation of interest on working balances.
- Interest accrual calculation.
- Principal and interest charges reports from the Treasury Management system.
- Analysis of any deferred charges.
- Calculation of loans fund creditors and debtors.
- Mid-year and Annual Treasury Outturn Reports.
- Treasury Management Strategy and Prudential Indicators.
- Information of charges to the Income & Expenditure account in respect of MRP analysed into its constituent parts.
- Details of any amounts held on behalf of external bodies and movements in those funds during the year.



**TMP 8 CASH AND CASH FLOW MANAGEMENT****8.1 Arrangements for preparing cash flow statements**

Cash flow projections are prepared regularly. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Cash flow is recorded on the TM database with as great an accuracy as is possible, to assist in analysis and better future predictions.

All efforts are made to contact various departments prior to the financial year in order to ascertain timings and amounts of grants and other income to be received, or payments to be made.

Cash flow forecasts are updated daily as information flows from payroll, creditors etc. pass through the TM team for payment.

**8.2 Bank statements procedures**

The Corporate Accounting Team receives a daily download of data from the bank. All amounts on the statement are checked to source data from Treasury Management documents as well as Payroll and Creditor information. The Corporate Accounting Team (CATS) allocates expenditure to codes daily, which helps to identify differences. Cashiers perform the same process for income. CATS also undertake formal bank reconciliation.

**8.3 Payment scheduling and agreed terms of trade with creditors**

SC policy is to pay creditors at the latest possible date within the terms of the creditor. The creditor system is able to apply different terms for each creditor. The Exchequer Team performs this function. The Exchequer team is also responsible for the arrangements for monitoring debtor and creditor levels.

There may be occasions where advantageous terms can be gained by paying in advance of contractual terms. The decision to enter into revised terms will remain with the senior officers responsible for the budget.

**8.4 Procedures for banking of funds**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the bankers to deposit in the Council's banking accounts.

**TMP 9 MONEY LAUNDERING****9.1 Overview**

This Council's policy is to prevent, wherever possible, the organisation and its employees being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

The Council has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

**9.2 Procedures for establishing identity / authenticity of lenders**

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the Financial Conduct Authority (FCA) website at [www.fca.org.uk](http://www.fca.org.uk)

When repaying loans, the procedures in 9.3 will be followed to check the bank details of the recipient.

**9.3 Methodology for identifying deposit takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that fulfil the counterparty criteria approved by Full Council, as part of the Annual Treasury Strategy. Where these are deposits, they will only be placed with a Financial Institution that is authorised by the Prudential Regulation Authority to accept deposits, is a Building Society incorporated in the UK, or is a passported EEA institution. A 'List of Banks' is published by the Prudential Regulation Authority (PRA) and can be accessed through the Bank of England website at <http://www.bankofengland.co.uk/pr/Pages/authorisations/banksbuildingsocietieslist.aspx>

The exceptions to this are other Local Authorities and the DMO.

Where a counterparty is contracted via a broker, the broker confirms bank details. Where SC has previously used the counterparty, details are checked against those currently held. Any changes are confirmed by the broker and by the counterparty on headed paper. When a broker introduces a new counterparty, SSIs on headed paper are requested.

When dealing with counterparties direct, a copy of SSIs is requested, as well as a list of contacts that are authorised to transact and / or provide information.

All payment transactions are carried out via CHAPS, for making deposits or repaying loans.

## 9.4 Proceeds of Crime Act 2002 (POCA)

The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland.
- Being concerned in an arrangement that a person knows or suspects facilitates the acquisition, retention, use or control of criminal property.
- Acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

Other offences include:

- Failure to disclose money laundering offences.
- Tipping off a suspect, either directly or indirectly.
- Doing something that might prejudice an investigation – for example, falsifying a document.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism.

All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

Please find below an explanation of the current responsibilities of local authorities: -

*The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.*

*The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore, whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer (F.D., Treasurer, Head of Legal) to whom suspicions must be reported and who is responsible for deciding whether to pass the report to NCIS.*

NCIS  
PO BOX 8000  
LONDON SE11 5EN

[www.ncis.co.uk](http://www.ncis.co.uk)

The Section 151 Officer is conversant with the requirements of the Proceeds of Crime Act 2002 and will train the following staff in being diligent to be alert for suspicious transactions:

- Treasury management
- Cashiers section
- Other as appropriate

The Council has appointed the Service Manager - Investments to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

## **9.5 Other relevant Legislation**

Money Laundering Regulations 2007 - SCC has written Anti Money Laundering, and Anti-Fraud and Corruption Policies, which are available on the intranet. The Investments Team is aware of these policies.

Terrorism Act 2000 – Local Authorities are subject to full provisions

Bribery Act 2010 – Local Authorities should be mindful of its requirements

**TMP 10 STAFF TRAINING AND QUALIFICATIONS****10.1 Details of approved training courses**

SC does not currently subscribe to membership of the CIPFA Treasury Management Network but attends seminars on an ad hoc basis, to keep abreast of relevant industry and market developments, and to share best practice with practitioners from other Local Authorities and Public Services.

There is no list of approved training courses maintained, but sources of training and contents of courses and seminars are received frequently from a host of external suppliers. In line with the Council staff appraisal policies, courses deemed suitable will be suggested and approved accordingly. These may be provided by CIPFA, ratings agencies, or money brokers etc.

**10.2 Starting Qualifications**

There is a stated minimum level of qualification needed, as part of each job description for the various posts within the Investments team.

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a staff appraisal system, which identifies the training requirements of individual members of staff engaged in treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Section 151 Officer to ensure that all staff under his authority receives any necessary training.

**10.3 Statement of Professional Practice (SOPP)**

If the Section 151 Officer is a member of CIPFA they are required to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

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

## **10.4 Details of qualifications & experience of treasury staff**

As at January 2023

Service Manager – Investments:

- Has experience working within the financial and investment services industry in both the public and private sectors since 1995 and has been heading up the SC Investments team since March 2003.
- Is a Chartered Financial Analyst and an Associate of the Society of Investment Professionals.
- Holds a BSc (Hons) degree in Accounting and Financial Analysis.
- Holds the Investment Management Certificate.

Principal Investment Officer

- Has worked in the SC investments team since 1998, except for 2 years in the SC internal audit team.
- Holds a BA (Hons) degree in Business Administration
- Is AAT qualified
- Holds the Investments Administration Qualification from the Securities Institute.

Senior Investment Officer

- Has worked in the SC investments team since 2004, and for a further 7 years in various accounting functions of SC
- Is AAT qualified
- Holds the Investment Management Certificate.

## **10.5 Records of training received by treasury staff**

Formal records of training received by treasury staff are kept by the individuals involved. All course material is kept for as long as it is deemed relevant.

## **10.6 Records of training received by those charged with governance**

All new Councillors receive an overview of the treasury management function as part of their induction.

Training opportunities for members are highlighted each year in the TMS. Invitations to attend CIPFA events relevant to Treasury Management are offered.

Records of any training received are to be kept by those charged with governance.

**TMP 11 USE OF EXTERNAL SERVICE PROVIDERS****11.1 Details of contracts with service providers, including bankers, brokers, consultants, and advisers****11.1.1 Banking services**

- Name of supplier of service is currently Nat West Bank
- The branch address is: 26-27 Fore Street, Taunton, TA1 1JQ
- Contract commenced 1 April 2021 and runs for four years to 31st March 2025. Cost of service is variable depending on schedule of tariffs and volumes
- Payments due quarterly

A full tender conducted as directed by SC Contract Standing Orders will be undertaken at the end of the current contract.

**11.1.2 Money-broking services**

In addition to direct dealing, the Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers where rates offered are the same, but the best rate achieved will be the primary factor.

The Principal Investment Officer, on an ongoing basis, evaluates the service levels of brokers and if rates are equal, the broker that has been offering the best service will be given the transaction. Contact with an approved list of brokers (below) is maintained. Appropriate recommendations to change the approved brokers list will be made to the Section 151 Officer at regular TM meetings.

Current broker contacts:

- Tullett Prebon
- Tradition UK Ltd
- Sterling International Brokers (Part of BGC Brokers)
- Intercapital (Europe) Ltd
- RP Martin
- Imperial Treasury Services
- King & Shaxson

### **11.1.3 Consultants' / advisors' services**

#### **Treasury Advisor Services**

Arlingclose were selected as Treasury Advisors to SC In February 2009. They were advisors to three of the four legacy District Councils and have been retained for the new Somerset Council.

The schedule of services that Arlingclose provide is clearly set out in the contract between SC and Arlingclose.

### **11.1.4 External Fund Managers**

None used at present for Treasury Management purposes.

### **11.1.5 Credit rating agencies**

The Council does not subscribe to a credit rating service but has free access to ratings information through registration with all three major ratings agencies, Fitch, Moody's, and Standard & Poor's.

### **11.1.6 Other External Services used**

Logotech – Dedicated Treasury Database – Used since 1998

Cachematrix – Money Market Fund (MMF) portal. Used for instructing MMFs and analysis of holdings within funds



**TMP 12 CORPORATE GOVERNANCE****12.1 List of documents to be made available for public inspection**

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

- Treasury Management Strategy
- Annual Treasury Outturn Report
- Mid-year Outturn Report
- Annual Statement of Accounts
- Annual budget
- 3-Year Capital Plan
- Minutes of Full Council meetings

**12.2 List of external funds managed on behalf of others and the basis for attribution of interest and costs**

SC has a contract to provide treasury management services to the Police and Crime Commissioner for Avon and Somerset. It manages these funds on a segregated basis under contractual arrangements.

SC manages funds on behalf of Exmoor National Park Authority, South West Councils, the Society of County Treasurers, and the Police and Crime Commissioners Treasurers' Society. These monies are managed on an aggregated funds basis in the name of SC, under terms agreed in a Service Level Agreement with those bodies.

SC is the administering body for the Local Enterprise Partnership (LEP). Funds from Government are received into the SC account and paid out to LEP partners when expenditure claims are verified by SC staff. Whilst LEP monies are under SC stewardship, they are amalgamated with SC funds and lent as part of SC balances. Interest is paid to the LEP partners on balances held at the rate achieved by SC minus a management fee.

**TMP 13 ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK  
MANAGEMENT**

Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. S C will therefore consider credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with the organisation's own relevant policies, such as environmental and climate change policies. As ESG in treasury investments is developed Somerset Council will look to incorporate it into future strategies. This may include scoring or other ESG criteria when it becomes more developed.

## SCHEDULE N

### LIST OF APPROVD COUNTERPARTIES

Bank or Building Society	Date Approved	Bank or Building Society	Date Approved
Bank of Scotland Plc	01/01/2007	Bank of Nova Scotia	20-04-2016
Barclays Bank Plc	01/01/2007	National Australia Bank	20-04-2016
HSBC Bank Plc	01/01/2007	Canadian Imperial Bank of Commerce (CIBC)	10-11-2016
Lloyds Bank Plc	01/01/2007	DZ Bank	20-04-2019
National Westminster Bank	01/01/2007	National Bank of Canada	14-04-2022
Nationwide Building Society	01/01/2007		
Royal Bank of Scotland Plc	01/01/2007	<b>Sterling LVCNAV Money Market Funds</b>	
Santander UK	01/01/2007	Invesco Aim	29-06-2009
Australia & New Zealand Bank	17-07-2012	Federated Prime	31-07-2009
Standard Chartered	13-09-2012	Insight	09-11-2009
Svenska Handelsbanken AB	13-09-2012	Aberdeen Standard	18-11-2009
Nordea Bank AB	13-09-2012	Deutsche	01-07-2011
Close Brothers Limited	02-05-2013	LGIM	23-02-2012
Rabobank	22-08-2013	SSGA	11-10-2018
Development Bank of Singapore	29-07-2104	Aviva	11-09-2020
United Overseas Bank	29-07-2104		
Goldman Sachs Investment Bank	29-07-2104		
Oversea-Chinese Banking Corp	20-04-2015	<b>Other</b>	
OP Corporate Bank	15-06-2015	DMO	05-02-2009
Commonwealth Bank of Australia	06-08-2015	Other Local Authorities	01-01-2007
Toronto Dominion	04-11-2015	CCLA Property Fund	26-04-2017
Landesbank Hessen-Thuringen Girozentrale (Helaba)	04-11-2015	RLAM Bond Fund	27-10-2020
Bank of Montreal	29-01-2016	M&G Bond Fund	23-02-2021

Certified by the Section 151 Officer

Date

and the Deputy Section 151 Officer

Date