

**Audit Committee – 9 November 2015**

**Annual Review of Treasury Management Policies and mid-year position statement 2015/16**

**1. Summary of report**

1.1. This report sets out the council's review of treasury management policies (**Appendix A**) and provides a mid-year position statement for treasury management activities (**Appendix B**).

**2. Recommendations**

2.1. To approve and recommend to Council, the Treasury Management Policies (TMP's) (**Appendix A**).

2.2. To note and forward to Council the mid-year position statement for treasury management activities 2015/16 including prudential and local indicators (**Appendix B**).

2.3. To note the planned treasury management training for members prior to council on 16<sup>th</sup> November 2015 (**Appendix C**).



**James T Walsh – Chief Finance Officer**  
**27 October 2015**

**3. Background information**

**Treasury Management Policies Review**

3.1. Treasury management is defined as:-

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

3.2. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by Council on 22<sup>nd</sup> February 2010 and the Council fully complies with its requirements. The treasury management policy statement and practices are reviewed and approved annually by Audit Committee (see meeting 10.11.14) and Council.

3.3. Primary requirements of the Code include:-

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the council's treasury management activities (**Appendix A**).
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management (TM) decisions (See Treasury Management Policy: TMP 5 pages 12-14).
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this council is the Audit Committee.

3.4 The council has a number of key policies and objectives for borrowing and investment. The policies are laid out in the treasury management policy statement attached (**Appendix A**). The objectives for borrowing are aimed at minimising the revenue cost of borrowing whilst maintaining a balanced loan portfolio. The council's objectives for investments are the prudent investment of council monies with secure institutions at the best possible rates of interest.

3.5 The key area for review in the treasury management practices are the criteria of credit ratings around investments which must be met before an investment may be made. This has been reviewed and reflects the current financial and economic climate. See TMP1 Credit and Counter party risk paragraphs a to h on pages 9-10.

3.6 This year the TM policies have been reviewed to ensure that new Banking Regulation changes are appropriately reflected to make certain that the security of the council's deposits remain the highest priority whilst the council seeks a fair return for its investment. See TMP 1 section on Credit and Counterparty Risk Management paragraph h. Following the Banking Regulation changes it is hoped and expected that the measures contained will raise the financial standing of banking institutions such that the implied removal of sovereign support on their credit rating will be neutralised.

### **Treasury Management Mid-Year Review**

3.7 Table 1 shows borrowing and investments held at 31 March 2015 and 30 September 2015. It shows that net borrowing has decreased by £30.082m. The mid-year cash position is usually between 10% to 20% higher than the year end position. The council's cash balance available for investment includes £24.3m of additional earmarked reserves for the Growth Deal.

<b>Table 1: Borrowing and Investments</b>			
	<b>Borrowing £ m</b>	<b>Investments £ m</b>	<b>Net Borrowing £ m</b>
31 March 2015	243.959	Cr 144.940	99.019
30 September 2015	225.769	Cr 156.832	68.937
Change in year	Cr 18.190	Cr 11.892	Cr 30.082

3.8 **Table 2** below shows the mid year revenue outturn for treasury management / capital financing. Currently there is a predicted under spend of £0.477m (2.5%) for 2015/16 before the one off premium cost of £8.878m.

<b>Table 2: Treasury Management midyear outturn analysis</b>				
<b>Service Area</b>	<b>2015/16 Approved Cash Limit £m</b>	<b>Forecast Outturn as at Sept £m</b>	<b>Saving on cash limit £m</b>	<b>% Variation</b>
Capital financing - MRP	7.659	8.379	0.719	9.4%
Capital financing - Interest	10.558	9.907	Cr 0.651	Cr 6.2%
Capital financing - Premiums, Discounts and Recoveries	0.033	0.033	0.000	1.2%
Net Investments	Cr 0.790	Cr 1.237	Cr 0.447	Cr 56.6%
Other local authority debt	1.932	1.931	Cr 0.001	0.0%
Other Treasury Costs incl. Mortgages	Cr 0.192	Cr 0.282	Cr 0.091	Cr 47.2%
Birmingham airport	Cr 0.074	Cr 0.082	Cr 0.008	Cr 10.5%
<b>Total for monitoring purposes</b>	<b>19.126</b>	<b>18.649</b>	<b>Cr 0.477</b>	<b>Cr 2.5%</b>
Premium funded from Reserves / Capital Receipts		8.878		
<b>Total Projected Revenue Expenditure</b>		<b>27.527</b>		

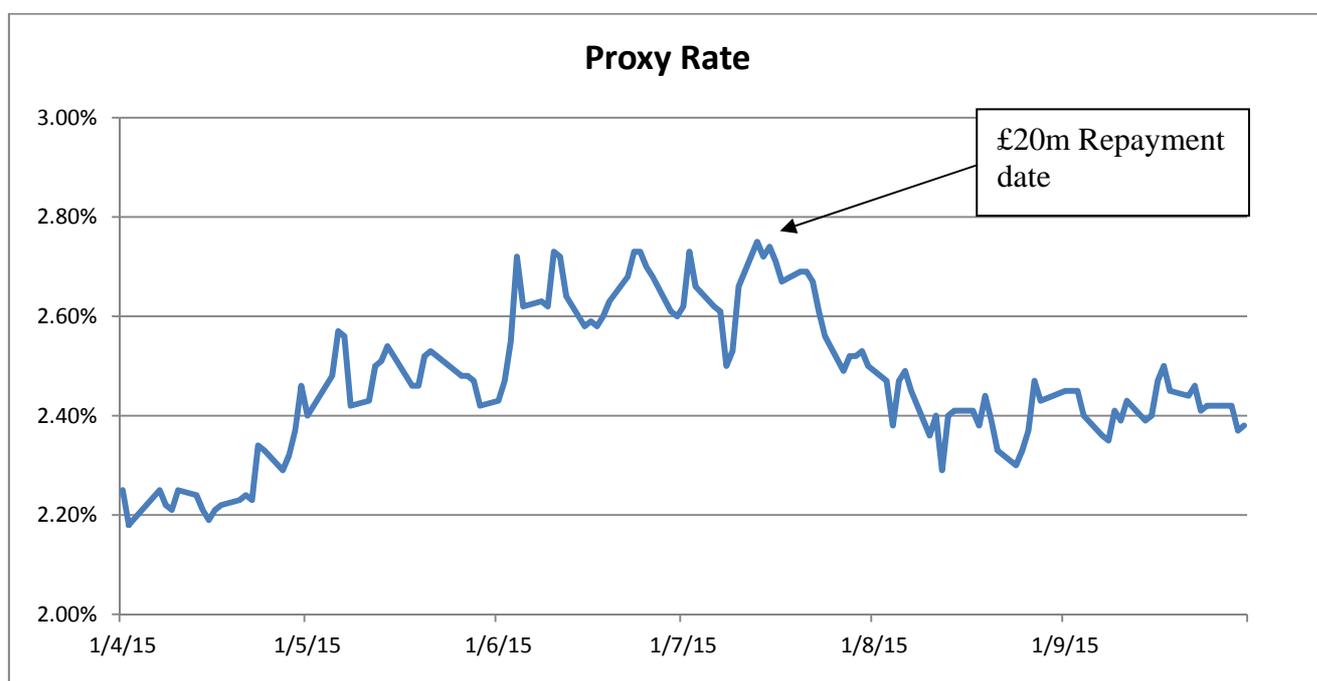
3.9 The reason for the premium charge is the early repayment of £20m long term borrowing in July 2015. See paragraph 3.10 below. This has been compensated for by a reduction in interest costs and a higher investment return. The higher rate of return has been obtained from investments at no additional risk; 1.13% compared to the target of 1.1% (see Local Indicator L11, Appendix B). If the opportunity arises for another prudent repayment of borrowing which would generate significant on-going savings, then this will be taken.

### 3.10 £20m Borrowing Repayment

In line with the treasury management strategic objective of seeking beneficial debt rescheduling or debt repayment opportunities, the council made an early repayment of £20m of long term borrowing with Barclay's bank on 15<sup>th</sup> July 2015. The premium cost of the repayment was financed from an earmarked reserve created for this purpose and capital receipts. A detailed financial appraisal was undertaken prior to the repayment and an evaluation of the repayment has been made by our Treasury Advisors. The council will make an annual revenue saving on interest payments of £0.960m. Future benefits of the repayment rests on the assumption of rates associated with lost investment income. The following table shows the life time savings based upon various investment return assumptions.

Interest Rate Assumptions	Life time saving / Saving
Peak at 2.78% before falling back to 2.14% in 2046	£1.634m - Surplus
Peak at 2.82% before falling back to 2.11% in 2046	£1.199m - Surplus
Rise to 3.5% and remain at 3.5%	£1.447m - Loss
Life time of 1.85% (current 2 year investment offer)	£3.994m - Surplus

It should be noted that the timing of the repayment proved to be most beneficial. The PWLB 28 year premature repayment rate was used as a proxy rate. The following graph illustrates this rate from 1<sup>st</sup> April to 30<sup>th</sup> September 2015 and shows that the repayment was undertaken at the optimum point.



#### 4. Resource and Legal considerations

##### 4.1 Financial

The treasury management policy statement is a key document for the operation, review and performance assessment of treasury management and is reviewed annually. It forms part of the council's financial framework and supports delivery of the medium term financial strategy.

##### 4.2 Legal

The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The Council adopted the original treasury management code in 1992 and further revised Code in 2002 and 2010.

## **5. Risk and performance management issues**

### **5.1 Risk**

Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. It is recognised that the management of risk is as important as maximisation of performance and it is essential that the council has the right balance of risk and reward when making investment decisions. The treasury management policy statement seeks to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council. Treasury management practice 1 (TMP 1) details the risk management arrangements in place (**Appendix A**).

### **5.2 Performance**

The treasury management function participates in a local and national benchmarking group which compares Walsall council's treasury management performance with those of other councils. Performance is regularly reviewed by the treasury management panel. The treasury management Annual Report is distributed to all councillors and used for member training. The prudential and local indicators as 30<sup>th</sup> September 2015 are shown in **Appendix B**. All key prudential indicators are met or complied with.

## **6. Equality implications**

None directly relating to this report.

## **7. Consultation**

The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Treasury Financial Administration and Systems Manager.

## **8. Background papers**

- Various financial working papers
- Annual review of treasury management policy statement 2014/15 Onwards – Audit Committee 10.11.14
- Corporate budget plan and treasury management and investment strategy 2015/16 – Council 26.02.15

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### TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA Code recommends that authorities should:

- i. 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.
- ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.
- iii. Acknowledge that the pursuit of best value 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, the treasury management policies and practices should reflect this.

In order to do this, the Council should once again adopt a treasury management policy statement as shown below and create and adopt treasury management practices (TMPs):

- A treasury management policy statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents 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 this council's particular circumstances.

There are amendments to the responsible posts under delegated powers which reflect changes to the staffing structure of the finance service.

# THE TREASURY MANAGEMENT PRACTICES 2015/16 ONWARDS

**Walsall Council** defines its treasury management activities as:  
 “The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”

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

**Walsall Council** acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

<b>TREASURY MANAGEMENT FUNCTION</b>	
	<p>The approved activities of the treasury management function are as follows:</p> <p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>• Borrowing</li> <li>• Investment of temporary surplus funds and other balances</li> <li>• Setting and reviewing the treasury management strategy</li> <li>• Cash flow management</li> <li>• Management of school investments</li> <li>• Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.</li> </ul>

<b>TMP 1 – TREASURY RISK MANAGEMENT</b>	
	<p>The Chief Finance Officer shall:</p> <ul style="list-style-type: none"> <li>• Ensure that appropriate arrangements are in place for the design; implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk.</li> <li>• Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council’s objectives in this respect.</li> <li>• In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.</li> </ul>
	<p><b>Liquidity</b>  <u>Objective:</u> Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available which are necessary for the achievement of its service objectives.</p>

**Interest Rates**

Objective: Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.

**Exchange Rates**

Objective: Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

**Inflation**

Objective: Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.

**Credit and Counterparties**

Objective: To secure the principal sums invested. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited

**Rescheduling and Refinancing of Debt**

Objective: All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining 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.

Relationships with counterparties in these transactions will be managed 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.

**Legal and Regulatory**

Objective: Compliance with statutory powers and regulatory requirements for all treasury management activities. The council 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 - *Credit and Counterparty risk management*, the council 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.

The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

**Fraud, Error and Corruption, and Contingency Management**

Objective: Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.

**Market Risk**

Objective: Protection from adverse market fluctuations in the value of the principal sums invested.

**Additional Level Risk / Reward**

Objective: - to ensure that the risk/ reward balance is appropriate and consistent with the risk appetite of the council the following aims are managed:-

- to have a large proportion of debt on fixed rates to provide stability.
- to have investments over a range of period lengths
- to use UK highly rated banks or strong building societies
- to obtain a fair return without any undue risk.

A high risk credit rating is defined as Banks/Institutions with a national credit rating of > A.

## Credit and Counterparty Risk Management

The Treasury, Financial Administration and Systems Manager will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least 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.

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 - Approved Instruments Methods And Techniques. 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 arrangements.

Policy on the use of credit risk analysis techniques:

- a. The council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from rating agencies – Fitch, Moodys and S&P.
- c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.
- d. The Treasury, Financial Administration and Systems Manager, as responsible officer, will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. The primary credit rating scales which are used are shown below.

Minimum ratings	Fitch	Moodys	S&P
Short term	F2	P2	A-2
Long term	A	A3	A

- e. Credit ratings for individual counterparties can change at any time. The Treasury, Financial Administration and Systems Manager is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on the criteria for selection of counterparties, and with the approval of the Treasury, Financial Administration and Systems Manager.
- f. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other

sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and the credit ratings of that government support
- The maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society.	Minimum Ratings as defined above in paragraph d above.	£25m in total Fixed term not exceeding £15m	3 years
	LAMS scheme	£5m	7 years
Building Societies	Must be at least in the top 14 largest Building Society.	£10m	3 years
	Other Building Societies be in the top 20 in terms of proportion of free capital and profitability.	£7m	3 years
Challenger Banks	Following an assessment must have strong free capital ratios above the level set by the Prudential Regulation Authority	£10m	3 years
Money Market Funds	AAA long-term rating backed up with lowest volatility rating (MR1+)	£15m	3 years
Non UK Banks	Minimum Ratings as defined above in paragraph d.	£10m	1 year

g. In defining the level and term of deposits significant regard is given to the proportion of the institution in government ownership.

**h. Following the changes to the Banking Regulations the council will consider when assessing the financial resilience of an institution key ratios e.g. common equity tier 1, leverage capital / exposure, liquidity coverage, net stable funding.**

Notes:

- The definition of 'high credit quality' is also used to determine what are specified investments as opposed to non specified investments. Specified investments are those that require minimum procedural formalities in terms of the placing of the investment by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.

- Non-specified investments may be undertaken on the approval of the Chief Finance Officer e.g. loans to housing associations and bond issues by other public sector projects. These may be for a duration longer than 3 years.
- For a credit rated bank to be on the council's counter party list the criteria must be passed for at least 2 of the credit ratings agencies.
- Full Individual Listings of Counterparties and Counterparty Limits are available on request and reported regularly to the treasury management Panel.

#### **Local Authority Mortgage Scheme (LAMS)**

The council is participating in the cash backed mortgage scheme which requires the council to place a matching five year deposit to the life of the indemnity, the deposit may be extended to up to seven years. This investment is an integral part of the policy initiative and is outside the criteria above. Cabinet agreed to adopt the LAMS scheme on 24<sup>th</sup> October 2012 [LAMS Cabinet Report](#).

#### **Authorisation of Payments**

In order to support and maintain strong controls for the release of payments. A payment releasers register is maintained. It includes the names and post titles of officers authorised to sign financial documents releasing payments including cheques requiring manual signature and bank mandates. The payments releasers register is reviewed regularly and is approved by the Chief Finance Officer or Head of Finance.

The invoice / payments authorisation process is regulated by the financial and contract rules. Limits and authorised officers are maintained in the authorised signatory's data base.

### **TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT**

The council actively works to promote value for money and best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement. In addition annual benchmarking is undertaken to measure performance and to ensure that relative to other councils the council is achieving a fair investment return without any undue risk.

### **TMP 3 – DECISION- MAKING AND ANALYSIS**

Full records will be maintained of treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

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

Only approved instruments, methods and techniques will be used, within the limits defined in TMP1 - Risk Management.

#### **Sources of Borrowing**

There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

#### **Other Sources of Finance**

The Chief Finance Officer shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc. where the acquisition or use of such items has been approved in line with the council's contract and rules.

### **Approved Organisations for Investments**

The Chief Finance Officer shall approve and revise from time to time, a list of organisations within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £25 million and the maximum period for investment shall be 3 months, 6 months, 1, 2 or 3 years in accordance with each individual institution's credibility. This review should be at least monthly and incorporate any changes in ratings of counter parties.

### **Interest Rate Exposure**

The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

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

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure 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.

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 audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the Chief Finance 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 Chief Finance 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 Chief Finance Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Chief Finance Officer in respect of treasury management are set out below and in the Treasury Management Strategy. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Treasury Management Strategy, TM Policy Statement and TM Policies and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

Activity	Prepared By	Delegation / Accountability
Approval of Treasury Management and Investment Strategy.	Head of Finance / Assistant Director of Finance	Cabinet then Council
Approval of Treasury Management Policies	Head of Finance / Assistant Director of Finance	Audit Committee then Council

Activity	Prepared By	Delegation / Accountability
Review the debt portfolio and reschedule ' repay loans when considered appropriate	Treasury Financial Administration and Systems Manager	Chief Finance Officer *
Update TM Practices	Treasury Financial Administration and Systems Manager	Chief Finance Officer *
Undertake budget monitoring and initiate actions when necessary	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Head of Finance
Authorisation of loan interest payments	Treasury Management Officer	Senior Accountancy Officer - Treasury
Approval of overnight investments	Treasury Management Officer	Senior Accountancy Officer - Treasury
Preparation of borrowings documentation	Treasury Management Officer	Senior Accountancy Officer - Treasury
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from PWLB, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, Council or Cabinet	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Chief Finance Officer *
Maintain Payment Releasers Register	Senior Accountancy Officer - Treasury	Chief Finance Officer *
To arrange finance and operating leases as required in accordance with the council's capital programme	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Chief Finance Officer *
To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in legislation, subject to any restrictions which may be made by statute, by Council or by Cabinet	Treasury Management Officer	Senior Accountancy Officer - Treasury
To maintain a register of approved Brokers	Treasury Management Officer	Senior Accountancy Officer - Treasury

Activity	Prepared By	Delegation / Accountability
To maintain a counter party list of approved organisations eligible to receive council investments, this involves; <ul style="list-style-type: none"> <li>- ongoing monitoring of ratings on investment products and institutions.</li> <li>- signing off by the treasury manager as evidence of a monthly review and mid month changes if necessary.</li> <li>- if ratings change for an investment product or institution currently held then actions for a possible exit of that strategy are undertaken as approved by the Treasury Management Panel</li> </ul>	Senior Accountancy Officer - Treasury	Treasury Financial Administration and Systems Manager  Treasury Financial Administration and Systems Manager  Treasury Financial Administration and Systems Manager  Treasury Financial Administration and Systems Manager and / or Chief Finance Officer dependent on limits set by TMP of exit strategy
Daily cash flow forecast	Treasury Management Officer	Senior Accountancy Officer - Treasury
Update loan records	Treasury Management Officer	Senior Accountancy Officer - Treasury
Operational Cash Flow	Treasury Management Officer	Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Audit and control review and improvements Recommendations implementations	Internal Audit / All	Senior Accountancy Officer - Treasury
Implement the minimum revenue provision (MRP) Policy	Treasury Financial Administration and Systems Manager/ Senior Accountancy Officer - Treasury	Chief Finance Officer *
Annual MRP Policy review	Senior Accountancy Officer – Treasury / Corporate Financial Systems and Treasury Manager	Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Maintain accurate up to date information on Treasury Management System - Logotech	Treasury Management Officer	Senior Accountancy Officer - Treasury

\*The Head of Finance may also exercise these powers.

**TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

**Regular reports will be prepared for consideration by Council on:**

- Annual Report on treasury management activities for the preceding year;
- Treasury Management Strategy for the year, reviewed at least once during the year.

Regular monitoring reports on prudential and local indicators are prepared for the Treasury Management Panel.

<b>Report</b>	<b>Frequency</b>	<b>When</b>	<b>To</b>
Review of Treasury Management Strategy (TMS)	Annual	February	Cabinet and Council
<b>Report</b>	<b>Frequency</b>	<b>When</b>	<b>To</b>
TMS - material changes	Immediately		Cabinet and Council
Treasury Management Annual Report	Annual	September	Audit Committee and Council
Review of Treasury Management Policy	Annual	November	Audit Committee and Council
Mid-year report	Annual	October	Audit Committee and Council
TM budget monitoring	Quarterly  Monthly	July, Oct, Jan, April	Chief Finance Officer Treasury Management Panel  Head of Finance for inclusion in overall corporate financial monitoring reports to CMT and Cabinet which are first reviewed by the Chief Finance Officer
TM performance indicators	Quarterly  Monthly	July, Oct, Jan, April	Chief Finance Officer Treasury Management Panel  Head of Finance
Cash flow summary	Monthly		Treasury Financial Administration and Systems Manager
Borrowing transactions	Monthly		Treasury Financial Administration and Systems Manager
Payment Releasers Register	Quarterly		Chief Finance Officer Head of Finance
Operational Investment strategy	Quarterly		Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
12 monthly Cash Flow	Quarterly		Treasury Financial Administration and Systems Manager / Senior Accountancy Officer - Treasury
Government statistical returns	Monthly		Office of the Deputy Prime Minister
Daily cash balance forecast	Daily		Senior Accountancy Officer - Treasury

**TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Chief Finance Officer will prepare an annual treasury management budget which will bring

together all costs involved in running the treasury management function and associated income. This will be presented to Cabinet and Council and is approved as part of the Treasury Management and Investment Strategy.

The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.

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

In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this may damage the council's reputation. Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the payment releasers register.

### **TMP 8 – CASH AND CASH FLOW MANAGEMENT**

All council monies shall be aggregated for treasury management purposes and will be under the control of the Chief Finance Officer. Cash flow projections will be prepared on a regular and timely basis and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1** Liquidity risk management.

### **TMP 9 – MONEY LAUNDERING**

Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staffs involved in this area are properly trained.

As a responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly the council undertakes a number of safeguards including the following: -

- a) evaluates the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under Proceeds of Crime Act (POCA) 2002

In respect of treasury management transactions, there is a need for due diligence. The Council will only invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk)).

All transactions will be carried out by BACS or Chaps for making deposits or repaying loans.

The council does continue to manage a local bonds scheme. When repaying these loans or if new loans were taken procedures would be followed to check the bank details of the recipient and the council will confirm the identity of the lender.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.

### **TMP 10 – STAFF TRAINING AND QUALIFICATIONS**

The council will appoint individuals to the treasury management function 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. All the council's senior treasury management staff will be CCAB qualified and have or are working towards a specific TM qualification. An annual review of staff capacity including training needs and experience will be undertaken and reported to the Treasury Management Panel. Specific training for councillors will be undertaken.

#### **TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS**

When external service providers are employed, the Chief Finance Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented.

The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services. The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.

#### **TMP 12 – CORPORATE GOVERNANCE**

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

The council has adopted and has implemented the key recommendations of the CIPFA Code. The Chief Finance Officer will monitor and when necessary, report upon the effectiveness of these arrangements to Audit Committee.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the Chief Finance Officer or (in his absence) the Head of Finance (deputy Chief Finance Officer). It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective treasury performance.

Prudential Indicators as at 30<sup>th</sup> September 2015

Prudential Indicator		Actual 2014/15 £m	Target 2015/16 £m	Position at 30-Sept- 15 £m	Variance to target	
					£m	%
<b>Pri 1</b>	<b>Capital Expenditure</b>	<b>45.420</b>	96.430	<b>95.640</b>	- 0.790	- 1%
This indicator is required to inform the council of capital spending plans it is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure. Capital expenditure may be funded by grant, capital receipts and borrowing. NB. August draft figures used.						
<b>Pri 2</b>	<b>Ratio of financing costs to net revenue stream</b>	<b>8.46%</b>	10.00%	<b>9.3%</b>	- 0.7%	-7%
<b>Financing costs - Divided by</b> (Interest charged on loans Less Interest earned on investments)		<b>Budget requirement</b> (Revenue Support Grant + NNDR +Council Tax)		<b>The ratio of financing costs to net revenue stream (General Fund) as a %</b>		
<b>Pri 3</b>	<b>Estimates of the incremental impact of new capital investment decisions on Council Tax</b>	<b>£18.19</b>	£30.33	<b>£30.33</b>	-	0%
This is a notional amount indicating the amount of council tax band D that is affected by the capital programme in the budget report compared to existing approved commitments and current plans.						
<b>Pri 4</b>	<b>Capital Financing Requirement</b>	<b>306.082</b>	<b>325.077</b>	<b>306.082</b>	Not applicable	
This represents the underlying level of borrowing needed to finance historic and future capital expenditure. It is calculated at year end.						
<b>Pri 5</b>	<b>Authorised Limit for external debt</b>	<b>349.022</b>	<b>357.585</b>	<b>357.585</b>	-	0%
The council may not breach the limit it sets, so it is important to allow prudent room for uncertain cash flow movements and borrowing in advance of future need.						
<b>Pri 6</b>	<b>Operational Limit for external debt</b>	<b>307.527</b>	<b>316.787</b>	<b>316.787</b>	-	0%
This has been set at the level of the capital financing requirement less the CFR items relating PFI and finance leases.						
<b>Pri 7</b>	<b>Gross Borrowing exceeds capital financing requirement</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	
The CFR represents the underlying level of borrowing needed to finance historic capital expenditure. Actual net borrowing should be lower than this because of strong positive cash flow and balances. It would be a cause for concern if net borrowing exceeded CFR.						
<b>Pri 8</b>	<b>Authority has adopted CIPFA Code of Practice for Treasury Management</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	
To ensure that treasury management activity is carried out within best professional practice.						
<b>Pri 9</b>	<b>Total principle sums invested for longer than 364 days must not exceed</b>	<b>25.000</b>	<b>14.500</b>	<b>Yes</b>	<b>Yes</b>	
The council is at risk when lending temporarily surplus cash. The risk is limited by investing surplus cash in specified investments and by applying lending limits and high credit worthiness. These are kept under constant review.						

Table 6 continued Prudential Indicator		Upper Limit	Lower Limit	Position at 31-Mar-15	Position at 30-Sept-15
Prl 10	Fixed Interest Rate Exposure	95%	45%	<b>95%</b>	<b>95%</b>
Prl 11	Variable Interest Rate Exposure	45%	0%	<b>5%</b>	<b>5%</b>
Prl 12	<b><i>Maturity Structure of Borrowing</i></b>				
	Under 12 months	25%	0%	<b>5%</b>	<b>6%</b>
	12 months and within 24 months	25%	0%	<b>22%</b>	<b>22%</b>
	24 months and within 5 years	40%	0%	<b>26%</b>	<b>22%</b>
	5 years and within 10 years	50%	10%	<b>17%</b>	<b>19%</b>
	10 years and above	85%	40%	<b>30%</b>	<b>32%</b>

## Local Indicators as at 30<sup>th</sup> September 2015

Table 13 Local Indicators		Actual 2014/15	Target 2015/16	Position as at 30-Sept-15	Variance to target	Met
L1	Full compliance with prudential code	YES	Yes	Yes		Y
L2	Average length of debt	15	15 to 25 years	15.24		Y
This is a maturity measure and ideally should relate to the average lifespan of assets.						
L3a	Financing costs as a % of council tax requirement	23.66%	25.00%	19.82%	- 21%	Y
L 3b	Financing costs as a % of tax revenues	13.43%	13.50%	11.57%	- 14%	Y
These are a variation to Prl 3 excluding investment income and including MRP (amount set aside to repay debt costs)						
L4	Net actual debt vs. operational debt	78%	75 - 90%	76%		Y
This assists the monitoring of the authority's debt position.						
L5	Average interest rate of external debt outstanding excluding OLA	4.60%	4.60%	4.56%	1%	Y
L6	Average interest rate of external debt outstanding including OLA	4.73%	4.73%	4.70%	1%	Y
The measure should be as low as possible. Other Local Authority debt (OLA) is managed on our behalf by Dudley council.						
L7	Gearing effect of 1% increase in interest rate	0.99%	5.00%	1.07%	- 79%	Y
This relates risk management principles to the monitoring of the TM strategy. It measures the effect of a change in interest rates and the effect it may have on the capital financing costs.						
L8	Average interest rate received on STI vs. 7 day LIBID rate	0.66%	0.50%	0.68%	36%	Y
The council aims to be gain interest on surplus funds higher than the 7 day LIBID rate. This measures performance in a changing economic context.						
L9a	AT call investments	0.50%	0.40%	0.48%	20%	Y
L9b	Short Term Investments	1.08%	0.90%	1.17%	30%	Y
L9c	Long Term Investments	2.04%	1.80%	2.00%	11%	Y
L10	Average interest rate on all ST investments (ST and AT call)	1.02%	0.80%	1.04%	30%	Y
L11	Average rate on all investments	1.13%	1.10%	1.13%	3%	Y
As L10 but includes investments longer than 364 days.						
L12	% daily bank balances within target range	100%	98%	100%	2%	Y
	% daily bank balances within £50-£250k		95%	95%	0%	
This measures how good our daily cash flow prediction is. A figure of 98% indicates a high level of accuracy.						

# Treasury Management Briefing

To All Councillors and Members of Audit committee

You are invited to attend **one** Treasury Management Briefing.

**When: 5.30pm in Committee Room 5 the Council House  
On Wednesday 4th, Thursday 5th, and Friday 6<sup>th</sup> November 2015.**

**Aim: To provide members with an understanding of Treasury Management.**

The Annual Treasury Management Report 2014/15, Annual Review of Treasury Management Policies and mid-year position statement 2015/16 will be used as key learning materials, these reports are forwarded to Council from Audit committee.

**Topics included:**

**1. What is Treasury Management?**

- Borrowing
- Investments
- Cash flow

**2. Treasury Management Policies**

- Minimum Revenue Provision (MRP) – the policy for repaying debt.
- Risk Management - the framework of controls and procedures within which treasury management operates

**3. Treasury Management Strategy**

- Objectives of the strategy
- How we react to interest rate changes and the economic environment

**4. Key Questions**

- Why did we make a £20m early repayment of debt?
- How does Walsall's performance compare with other councils?

The briefing will include relevant practical examples linked to current affairs for additional interest to members and will last 30 to 45 minutes.

If you would like to attend one of the briefings or you would like a briefing arranged for yourself separately please contact:-

**Michael Tomlinson, Treasury Financial Administration and Systems Manager,  
Email: [tomlinsonm@walsall.gov.uk](mailto:tomlinsonm@walsall.gov.uk), Tel: 01922 65(2360)**