

## Audit Committee – 20 November 2017

### Annual Review of Treasury Management Policies and mid-year position statement 2017/18

#### 1. Summary

- 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 (**Appendix A**).
- 2.2. To note and forward to Council the mid-year position statement for treasury management activities 2017/18 including prudential and local indicators (**Appendix B**).



**James T Walsh – Chief Finance Officer**  
**1 November 2017**

#### 3. Report Detail

##### **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 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 21/11/16) 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 decisions (See Treasury Management Policy TMP 5 page 16).
  - 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 With regard to the council's treasury management practices, the key areas for review were as follows:
- i. TMP5 and TMP6 have been reviewed and updated to reflect recent changes to staffing and structures within the treasury management service,
  - ii. TMP1 has been updated to include details of the main credit rating agencies credit rating scales. This addition has also led to a review of minimum credit ratings set out within TMP1 that the council would expect from its counterparties to ensure consistency across all main credit rating agencies when reviewing investment options. This has seen short term ratings harmonised at F2 / P3 / A-3 and long term at A3 / A- / A-. This change is not expected to result in any increased risk of counterparty exposure to the council as the minimum ratings included within the new harmonised rates across all main credit ratings agencies are no lower than before this amendment was made.
  - iii. The counterparty details included within TMP1 has been updated to include the ability to invest in Property Funds and Multi-Asset Investment Funds (with the minimum criteria for each set out within the table on page 13). This is to allow the council the ability to broaden its investment portfolio (where counterparty criteria is met) where diversification amongst different investment categories should therefore have the ability of reducing counterparty risk overall (and dependence on any one sector is reduced).
  - iv. The counterparty criteria relating to Money Market Funds listed within TMP1 has been updated to reflect current credit ratings criteria for these investments (as the previous criteria that was included within this TMP is no longer utilised by credit rating agencies).
  - v. The counterparty criteria relating to Building Societies and Challenger Banks listed within TMP1 has been updated to provide clarity on which counterparties can be used (with the minimum criteria set out within the table on page 13). This change is not expected to result in any increased risk of counterparty exposure to the council but defines in the absence of credit ratings the minimum criteria required for creditworthiness.

- 3.6 Treasury Management is the responsibility of all councillors. To support members in their understanding of the subject training information has been published through the council's e-learning portal and individual sessions are available on request.

### **Treasury Management Midyear review**

- 3.7 Table 1 shows borrowing and investments held at 31 March 2017 and 30 September 2017. It shows that net borrowing has decreased by £1.121m; this is due to the repayment of some LA loans. The investment balance has increased by £7.573m; this is mainly due to an increase in growth deal funding managed by Walsall on behalf of the Black Country Districts of £10.810m, partially offset by higher operational cash needs of £3.237m. The investment balance will decrease as we approach financial year end and payments on capital schemes are made and less income is profiled to be raised / collected during that period.

<b>Table 1</b>	<b>31-Mar-17 £m</b>	<b>30-Sep-17 £m</b>	<b>Change in year £m</b>
<b>Borrowing</b>			
PWLB	96.655	96.621	(0.034)
Private Loans	102.000	102.000	0.000
Other Loans	25.250	24.164	(1.086)
<b>Total Borrowing</b>	<b>223.905</b>	<b>222.784</b>	<b>(1.121)</b>
<b>Investments</b>	<b>31-Mar-17 £m</b>	<b>30-Sep-17 £m</b>	<b>Change in year £m</b>
Growth Deal	23.242	34.052	10.810
Walsall Council (including Schools)	130.988	127.751	(3.237)
<b>Total Investments</b>	<b>154.230</b>	<b>161.803</b>	<b>7.573</b>
<b>Net Position (Borrowing less Investment)</b>	<b>69.675</b>	<b>60.981</b>	<b>(8.694)</b>

- 3.8 Table 2 below shows the midyear revenue outturn for Treasury Management / Capital Financing, where there is currently a small predicted overspend of £0.014m for 2017/18.

This is in the main attributable to due to a shortfall on the £0.500m savings target planned for 2017/18 linked to rescheduling of existing borrowing, where, following the reduction in bank rates following the Brexit referendum, current market conditions are not prevalent to banks offering the level of discount on any associated premium that the authority would need to see to realise a saving from this option.

However this has been mainly offset by overachievement of investment returns following considerable effort and negotiation from the treasury team to secure favourable rates when considering investment options, and through the review and identification of new opportunities for investment, alongside an overachievement against budget of ordinary share dividend income associated with Birmingham Airport.

<b>Table 2: Service Description</b>	<b>Full Year Forecast £m</b>	<b>Annual Budget £m</b>	<b>Forecast Variance £m</b>	<b>Action Plan Items £m</b>	<b>Transfer to / (from) reserves £m</b>	<b>Net Forecast Variance £m</b>
Interest Payable	9.865	8.472	1.393	0.000	(0.648)	0.746
Investment Returns	(1.512)	(0.930)	(0.582)	0.000	0.000	(0.582)
Allocation of interest on Internal balances	0.557	0.375	0.182	0.000	0.000	0.182
Other Local Authority Debt	2.095	2.046	0.049	0.000	0.000	0.049
Treasury management Costs	0.021	0.020	0.001	0.000	0.000	0.001
Bank Charges	0.060	0.060	0.000	0.000	0.000	0.000
Birmingham Airport	(1.532)	(1.230)	(0.302)	0.000	0.000	(0.302)
Mortgages	(0.001)	0.000	(0.001)	0.000	0.000	(0.001)
Depreciation	(24.288)	(24.288)	0.000	0.000	0.000	0.000
Minimum Revenue Provision	7.675	7.752	(0.077)	0.000	0.000	(0.077)
<b>Total</b>	<b>(7.062)</b>	<b>(4.346)</b>	<b>0.662</b>	<b>0.000</b>	<b>(0.648)</b>	<b>0.014</b>

### **Economic Outlook**

3.9 The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However,

the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018.

This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation – although there have been strong words from the Bank of England in recent weeks regarding the potential for increases in interest rates to begin imminently.

## **Performance**

3.10 The treasury management function regularly compares its performance against that of statistical neighbours, and this is reported to the treasury management panel and to members via the treasury management annual report.

3.11 The prudential and local indicators as at 30 September 2017 are shown in **Appendix B**. The majority of indicators are being met with the exception of:

- **L4: Net actual debt vs. operational debt** – Due to the additional borrowing taken out to fund the upfront pension payment at the start of 2017/18 this indicator is currently over target by 14.93%. This is likely to remain the position until at least November 2017 when the authority is scheduled to repay a £10m PWLB loan.
- **L8, L9 & L10 – Interest Rates received** – 3 of the 5 indicators within L8, L9 and L10 are not currently being met, the only exceptions being Long Term Investments which is overachieving by 1.17% due to decision to make an investment in the CCLA property fund in 2017/18 and the average interest rate received versus the 7 day LIBID rate which is achieved by a margin of 0.09%.

The main reason for the underachievement of the other indicators is linked to the current economic landscape with the Bank of England Base rate currently at 0.25. This has led to a significant reduction in rates offered on investments by counterparties. The treasury team are investing considerable effort in negotiation to seek to secure favourable rates when considering investment options, and are reviewing and identifying new opportunities for investment.

The targets that these prudential indicators are monitored against have been taken from the Treasury Management and Investment Strategy for 2017/18 Onwards.

## **4. Risk Management**

4.1 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. Financial Implications**

5.1 Treasury management activity forms part of the council's financial framework and supports delivery of the medium term financial strategy. 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.

## **6. Legal Implications**

6.1 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.

## **7. Property implications**

7.1 None directly relating to this report.

## **8. Health and wellbeing implications**

8.1 None directly relating to this report.

## **9. Staffing implications**

9.1 None directly relating to this report.

## **10. Equality Implications**

10.1 None directly relating to this report.

## **11. Consultation**

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

## **12. Background papers**

- Various financial working papers
- Annual review of treasury management policy statement 2016/17 – Audit Committee 21/11/16
- Corporate budget plan and treasury management and investment strategy 2017/18 – Council 23/02/17

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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 2017/18 ONWARDS

## Treasury Management Policy

**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.

### TREASURY MANAGEMENT FUNCTION

The approved activities of the treasury management function are as follows:

**Activities:**

- Borrowing
- Investment of temporary surplus funds and other balances
- Setting and reviewing the treasury management strategy
- Cash flow management
- Management of school investments
- Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.

### High Level Policies for Borrowing and Investment

The Treasury Management Strategy sets out the detailed policies that the organisation will follow in operating its treasury management function. The high level policies set out within the strategy that relate to borrowing (section 4.4 of the strategy) and investments (section 5.5 of the strategy) are as follows:

#### Borrowing Strategy

Walsall Councils borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio
- To manage the council’s debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly

- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

### **Investment strategy**

The underlying policy objective for Walsall Council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital
- Liquidity of its investments
- All investments will be in sterling
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

### **Treasury Management Practices**

<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>
<p><b>Interest Rates</b>  <u>Objective:</u> Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.</p>
<p><b>Exchange Rates</b>  <u>Objective:</u> Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.</p>
<p><b>Inflation</b>  <u>Objective:</u> Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.</p>
<p><b>Credit and Counterparties</b>  <u>Objective:</u> To secure the principal sums invested over the period of the investment. 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</p>

### **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 over the period of the investment.

### **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.

### **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 over the period of the investment. 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, Moody's and S&P.
- c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.
- d. The Senior Finance Manager and Finance manager – Technical Accounting and Treasury Management, as responsible officers, 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 agencies Primary Credit Rating Scales, which are used, are shown below.

**Primary Credit Rating Agencies Credit Rating Scales**

	Moody's		S&P				Fitch			
	Long Term	Short Term		Long Term	Short Term		Long Term	Short Term		
<b>Investment Grade</b>	Aaa	P1		AAA	A-1+		AAA	F1+		
	Aa1			AA+			AA+			
	Aa2			AA			AA			
	Aa3			AA-			AA-			
	A1			A+			A+			
	A2	P2		A	A-1		A	F1		
	A3			A-		A-				
	Baa1			BBB+		A-2	BBB+			
	Baa2			BBB			BBB	F2		
	Baa3		P3	BBB-		A-3	BBB-		F3	
<b>Non-Investment Grade</b>	Ba1	Not Prime		BB+	B		BB+	B		
	Ba2			BB			BB			
	Ba3			BB-			BB-			
	B1			B+	C		B+			
	B2			B			B			
	B3			B-			B-			
	Caa			CCC			CCC			
	Ca			CC		CC			C	
	C			C		C			C	
					D		D			D

The minimum credit ratings within these scales that the authority would expect for individual counterparties are set out below.

Minimum ratings	Moody's	S&P	Fitch
Short term	P3	A-3	F2
Long term	A3	A-	A-

Credit ratings for individual counterparties can change at any time. The Senior Finance Manager and the Finance manager – Technical Accounting and Treasury Management are 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 either the Senior Finance Manager or Finance Manager – Technical Accounting and Treasury Management .

e. 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 investment amounts relating to Approved Investment Counterparties are set out below:

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society	Minimum Ratings as defined above in paragraph d above.	£25m in total with fixed term not exceeding £15m	3 years
LAMS scheme	Minimum Ratings as defined above in paragraph d above.	£5m	7 years
Building Societies	Must be in Peer Group 1 of KPMG Building society Dashboard (based on total assets) and have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1).	£10m	3 years
	Other Building Societies must be in Peer Group 2 of KPMG Building Society Dashboard (based on total assets) and have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1).	£7m	3 years

Challenger Banks	Following an assessment must have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1), and must be a retail bank.	£10m	3 years
Money Market Funds	AAA long-term rating backed	£15m	3 years
Property Funds and Multi-Asset Investment Funds	Subject to individual financial assessment of each fund to identify the underlying financial strength	£20m	5 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 Regulation 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)**

Cabinet agreed to adopt the LAMS scheme on 24<sup>th</sup> October 2012. It involved the Council placing a matching five year deposit to the life of the indemnity. The investment is an integral part of the policy initiative and is outside the criteria above. As of 31<sup>st</sup> July 2016 the LAMS scheme has been closed following a slowdown in national activity, partly due to the Help to Buy Guarantee scheme. The LAMS deposit, and interest payable on it, will remain in place until the deposited matures / is returned.

**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 years in accordance with each individual institution's credibility. The only exceptions to this are the approved investment in the LAMS scheme where the planned period of the investment was 7 years, and any investment in a Property Fund which may be for a period of up to 5 years on condition that there is a reasonable withdrawal from the fund available. This should be reviewed 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 in the Constitution. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMP's and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

<b>Activity</b>	<b>Prepared By</b>	<b>Delegation / Accountability</b>
Approval of Treasury Management and Investment Strategy.	Head of Finance / Assistant Director of Finance	Cabinet Council
Approval of Treasury Management Policies	Head of Finance / Assistant Director of Finance	Audit Committee Council
Review the debt portfolio and reschedule loans when considered appropriate	Finance Manager – Technical Accounting and Treasury Management	Chief Finance Officer
Updates to TM Practices	Senior Finance Manager / Finance Manager – Technical Accounting and Treasury Management	Chief Finance Officer
Undertake budget monitoring and initiate actions when necessary	Finance Manager – Technical Accounting and Treasury Management	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

<p>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</p>	<p>Finance Manager – Technical Accounting and Treasury Management</p>	<p>Chief Finance Officer or Head of Finance</p>
<p>Maintain Payment Releasers Register</p>	<p>Senior Accountancy Officer - Treasury</p>	<p>Chief Finance Officer or Head of Finance</p>
<p>To arrange finance and operating leases as required in accordance with council's capital programme</p>	<p>Finance Manager – Technical Accounting and Treasury Management</p>	<p>Chief Finance Officer or Head of Finance</p>
<p>To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be made by statute, by Council or by Cabinet</p>	<p>Treasury Management Officer</p>	<p>Senior Accountancy Officer - Treasury</p>
<p>To maintain a counter party list of approved organisations eligible to receive council investments, this involves;</p> <ul style="list-style-type: none"> <li>- ongoing monitoring of ratings on investment products and institutions.</li> <li>- Investigation and appraisal of free capital ratio measures</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>	<p>Senior Accountancy Officer - Treasury</p>	<p>Senior Finance Manager / Finance Manager – Technical Accounting and Treasury Management</p> <p>or</p> <p>Chief Finance Officer dependent on limits set by TMP on exit strategy</p>

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	Senior Finance Manager / Finance Manager – Technical Accounting and Treasury Management / Senior Accountancy Officer - Treasury
Audit and control review and improvements Recommendations implementations	Internal Audit / All	Senior Accountancy Officer - Treasury
Annual MRP Policy review	Senior Accountancy Officer – Financial Reporting	Senior Finance Manager / Finance Manager – Technical Accounting and Treasury Management / Senior Accountancy Officer - Treasury
Maintain accurate up to date information on Treasury Management	Treasury Management Officer	Senior Accountancy Officer - Treasury

**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>Prepared By</b>	<b>To</b>
Review of Treasury Management Strategy (TMS)	Annual	February/ March	Senior Finance Manager	Cabinet and Council
TMS - material changes	Immediately	As required	Senior Finance Manager / Finance Manager – Technical Accounting and Treasury Management	Cabinet and Council
Treasury Management Annual Report	Annual	September	Senior Finance Manager	Audit Committee and Council
Review of Treasury Management Policy	Annual	November	Senior Finance Manager	Audit Committee and Council

Mid-year report	Annual	October	Senior Finance Manager	Audit Committee and Council
TM budget monitoring	Quarterly  Monthly	July, Oct, Jan, April	Senior Accountancy Officer – Treasury (reviewed by Finance Manager – Technical Accounting and Treasury Management)	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	Senior Accountancy Officer – Treasury (reviewed by Finance Manager – Technical Accounting and Treasury Management)	Chief Finance Officer Treasury Management Panel  Head of Finance
Cash flow summary	Monthly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
Borrowing transactions	Monthly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
Payment Releasers Register	Quarterly		Senior Accountancy Officer - Treasury	Chief Finance Officer Head of Finance
Operational Investment strategy	Quarterly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
12 monthly Cash Flow	Quarterly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management

Government statistical returns	Monthly		Finance Manager – Technical Accounting and Treasury Management / Senior Accountancy Officer - Treasury	Department for Communities and Local Government
Daily cash balance forecast	Daily		Treasury Management Officer	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 body, 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 register can be accessed through the Financial Conduct Authority website.

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 will hold or be working towards a specific TM qualification where required. 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 as required.

#### **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 2017

Prudential Indicator		Actual 2016/17 £m	Target 2017/18 £m	Forecast Position at 31-Mar-18 £m	Variance to target	
					Numerical Variance	% Variance
<b>Pri 1</b>	<b>Capital Expenditure</b>	<b>78.230</b>	52.554	<b>97.660</b>	45.106	86%
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. The forecast variance to target for 2017/18 is in the main due to slippage on capital schemes from 2016/17 that are now expected to be completed during 2017/18, and an adjustment to the original 2017/18 capital programme, approved by full Council at their meeting on 7 August 2017, in relation to the purchase of the Saddlers Centre.						
<b>Pri 2</b>	<b>Ratio of financing costs to net revenue stream</b>	<b>5.50%</b>	11.00%	<b>9.11%</b>	- 1.89	- 17%
<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>£7.98</b>	£12.90	<b>£12.90</b>	0	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>335.15</b>	<b>336.77</b>	<b>336.77</b>	N/A	N/A
This represents the underlying level of borrowing needed to finance historic and future capital expenditure. It is updated at end of the financial year.						
<b>Pri 5</b>	<b>Authorised Limit for external debt</b>	<b>360.965</b>	<b>376.190</b>	<b>376.190</b>	0	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>328.150</b>	<b>343.245</b>	<b>343.245</b>	0	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>		
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>	
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>5.0</b>	<b>25.0</b>	<b>10.5</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.					
<b>Prudential Indicator continued</b>		<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual 2016/17</b>	<b>Forecast Position at 31-Mar-17</b>
PrI 10	Fixed Interest Rate Exposure	95%	40%	<b>93%</b>	<b>94.04%</b>
PrI 11	Variable Interest Rate Exposure	45%	0%	<b>7%</b>	<b>5.96%</b>
PrI 12	<b><i>Maturity Structure of Borrowing</i></b>				
	Under 12 months	25%	0%	<b>22%</b>	<b>18.01%</b>
	12 months and within 24 months	25%	0%	<b>13%</b>	<b>5.97%</b>
	24 months and within 5 years	40%	0%	<b>19%</b>	<b>6.86%</b>
	5 years and within 10 years	50%	5%	<b>12%</b>	<b>16.50%</b>
	10 years and above	85%	30%	<b>34%</b>	<b>52.66%</b>



## Local Indicators as at 30<sup>th</sup> September 2017

Local Indicators		Actual 2016/17	Target 2017/18	Forecast Position as at 31-Mar-17	Variance to target		Met
					Numerical Variance	% Variance	
L1	Full compliance with prudential code	YES	Yes	Yes			Y
L2	Average length of debt	15.37	25 years	13.33	- 11.67	- 46.68%	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	17.74%	20.00%	15.81%	- 4.19	- 20.95%	Y
L3b	Financing costs as a % of tax revenues	10.88%	12.50%	9.50%	- 3	- 24.00%	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	81%	85%	99.93%	14.93	17.56%	N
This assists the monitoring of the authority's debt position. The variance to target is as a result of the approval of full Council at their meeting on 7 August 2017 to amend the original capital programme for 2017/18 for the purchase of the Saddlers Centre (which was funded from borrowing).							
L5	Average interest rate of external debt outstanding excluding OLA	3.80%	4.61%	3.24%	- 1.37	- 29.72%	Y
L6	Average interest rate of external debt outstanding including OLA	3.94%	4.72%	3.41%	- 1.31	- 27.75%	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	1.80%	5.00%	0.06%  This would increase the average interest rate payable from 3.41% to 3.47%	A move from 3.41% to 3.47% would equate to an increase of 1.73% - which is 3.27% below the target		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	0.75%	0.50%	0.59%	0.09	18.00%	Y

	<b>day LIBID rate</b>						
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.							
<b>L9a</b>	<b>AT call investments</b>	<b>0.30%</b>	0.30%	<b>0.17%</b>	- 0.13	- 43.33%	<b>N</b>
<b>L9b</b>	<b>Short Term Investments</b>	<b>0.90%</b>	0.75%	<b>0.71%</b>	- 0.04	- 5.33%	<b>N</b>
<b>L9c</b>	<b>Long Term Investments</b>	<b>1.56%</b>	1.20%	<b>2.37%</b>	1.17	97.50%	<b>Y</b>
<b>L10</b>	<b>Average interest rate on all ST investments (ST and AT call)</b>	<b>0.86%</b>	0.68%	<b>0.62%</b>	- 0.06	- 8.82%	<b>N</b>
<b>L11</b>	<b>Average rate on all investments</b>	<b>0.89%</b>	0.77%	<b>0.84%</b>	0.07	9.09%	<b>Y</b>
As L10 but includes investments longer than 364 days.							
<b>L12</b>	<b>% daily bank balances within target range</b>	<b>100%</b>	98%	<b>100%</b>	2	2.04%	<b>Y</b>
This measures how good our daily cash flow prediction is. A figure of 98% and above indicates a high level of accuracy.							