

## **TREASURY MANAGEMENT POLICY STATEMENT**

1. The Council defines its treasury management activities as:

“The management of the organisation’s borrowing, investments and cash flows, including 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”.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

# TREASURY MANAGEMENT PRACTICES

## TMP1 Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The Chief Finance Officer 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*.

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

### 1.1 Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, derivative instrument, or 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.

The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and it will limit its treasury management investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the schedule to this document.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

The Council's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

### 1.2 Liquidity Risk Management

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the organisation's business/service objectives.

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

The Council will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

### **1.3 Interest Rate Risk Management**

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances against which the organisation has failed to adequately protect itself.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with its treasury management policy and strategy and in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

### **1.4 Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

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

### **1.5 Inflation Risk Management**

Inflation risk, also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

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

### **1.6 Refinancing Risk Management**

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

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

### **1.7 Legal and Regulatory Risk Management**

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

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

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

### **1.8 Operational risk, including fraud, error and corruption**

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

The Council will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements to these ends.

[

### **1.9 Price Risk Management**

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

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

## **TMP 2 Performance Measurement**

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

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

## **TMP 3 Decision Making and Analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability, e.g. demonstrating that reasonable steps were taken to ensure all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

## **TMP 4 Approved Instruments, Methods and Techniques**

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

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

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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

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

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

If and when the Council intends, as a result of lack of resources or other circumstances, 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 also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

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

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



## **TMP 6 Reporting Requirements and Management Information Arrangements**

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

As a minimum:

- Full Council will receive:
  - an annual report on the strategy and plan to be pursued in the coming year
  - a mid-year review
  - an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.
  
- The Audit Committee will receive regular monitoring reports on treasury management activities and risks.
- The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.
- Local authorities should report the treasury management indicators and any other investment indicators as detailed in their sector-specific guidance notes.

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

## **TMP 7 Budgeting, Accounting and Audit Arrangements**

The Chief Finance Officer will prepare - and the Council will approve and, if necessary, from time to time will amend - an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

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

## TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

## **TMP 9 Money Laundering**

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

## **TMP 10 Training and Qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements including the specification of the expertise, knowledge and skills required by each role or member of staff.

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

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements including a knowledge and skills schedule, are detailed in the schedule to this document.

## **TMP 11 Use of External Service Providers**

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

The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

## **TMP 12 Corporate Governance**

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

The Council has adopted and has implemented the key principles of the Code.

This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

# Investments that are not part of Treasury Management Activity

## **Risk Management:**

Linked to principles in TMP1, the Council regards a key objective of its non-treasury investments to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all non-treasury investment including investment properties.

The risks, and proportionality of, associated with the level of borrowing, ongoing costs and ongoing income are reflected as part of the council's Capital Strategy. New PWLB borrowing regulations now prohibit the purchase of new investment properties (i.e. assets primarily purchased for yield) and the Council will avoid this activity to retain access to PWLB funding.

## **Performance and Management**

Linked to principles in TMP2, the strategic management and reporting of Investment Properties performance is the responsibility of the Director of Pride of Place with support from the Chief Finance Officer. A Project Board for the Management of Investment properties will meet on a quarterly basis to review performance.

The operational management of these properties is sourced by the Council, primarily from the TDA Group.

The monitoring of the performance of loans and guarantees will be undertaken by the Chief Finance Officer.

## **Decision Making, Governance and organisation**

Linked to the principles in TMP5, for Investment Properties the approval to dispose are taken by the Cabinet

Loans and Guarantees are approved by Council, subject to the officer scheme of delegation.

## **Reporting and Management Information**

Linked to the principles in TMP6, for Investment Properties the risks are assessed in reporting to the Overview and Scrutiny Board and to Council in the Capital Strategy.

Loans and Guarantees are to be included in TM reporting to Audit Committee

## **Training and Qualifications (linked to the principles in TMP10)**

The Council sources appropriate expertise from, primarily, the TDA and external advisors as required.

A list of the qualifications and relevant training by members of the Cabinet, Audit Committee and Overview and Scrutiny Board will be maintained.