

EAST RENFREWSHIRE COUNCIL

13 December 2017

Report by Head of Accountancy (Chief Financial Officer)

REVIEW OF TREASURY MANAGEMENT PRACTICES AND POLICY STATEMENT

PURPOSE OF REPORT

1. To advise the Council of a review of the Treasury Management Practices and Policy Statement.

RECOMMENDATIONS

2. It is recommended that the Council :-
- a) Consider the content of the revised Treasury Management Practices (Appendix 1) and Treasury Management Policy Statement (Appendix 2).
 - b) Approve the revised Treasury Management Practices (Appendix 1) and Treasury Management Policy Statement (Appendix 2).

BACKGROUND

3. In line with good practice, the Chief Financial Officer periodically reviews the Treasury Management Practices and Policy Statement, setting out the treasury procedures to be followed, and updates these to take account of changes to Council structures, processes and risks.
4. Only minor changes have been made to the documents mainly relating to the Council's internal structure.

RECOMMENDATIONS

5. It is recommended that the Council:-
- a) Consider the content of the revised Treasury Management Practices(Appendix 1) and Treasury Management Policy Statement (Appendix 2).
 - b) Approve the revised Treasury Management Practices (Appendix 1) and Treasury Management Policy Statement (Appendix 2).

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East Renfrewshire Council
Treasury Management Practices

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Treasury Management Practices 1: Risk Management

The responsible 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.

1.1 Credit and Counterparty Risk Management

Credit and counterparty 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 which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques. 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.

1.1.1 Policy on the use of credit risk analysis techniques

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.

Credit ratings will be used as supplied from all three rating agencies - Fitch, Moody's and Standard & Poor's.

Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.

The 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.

Minimum ratings	Fitch	Moody's	Standard & Poor's
Short term	F1	P-1/P-2	A-1/A-2
Long term	A-	A3	A

At present the Council restricts all deposits to a maximum term of 6 months, if this was to change the Link Asset Services creditworthiness facility based on using colours determined by minimum combinations of ratings to derive maturity limits as follows would be adopted: -

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector (now known as Link Asset Services) "Sector Suggested credit Policy 2012" for a full explanation.

Credit ratings for individual counterparties can change at any time. The Head of Accountancy Service 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 criteria for selection of counterparties.

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 building societies.
- The credit ratings of that government support.

Maximum maturity periods and amounts to be placed in different types of investment instrument are set out by the Head of Accountancy Service.

Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £5m (except when specifically approved by the Head of Accountancy Service).
- Group limits where a number of institutions are under one ownership – maximum of £5m (except when specifically approved by the Head of Accountancy Service).
- Country limits – at present the Council has restricted its lending to UK only. If this was to change the minimum sovereign rating of Fitch AAA, Moody's Aaa and S&P AAA being required for an institution to be placed on our approved lending list.
- Investments will not be made with counterparties that do not have a credit rating in their own right.
- Full Individual Listings of Counterparties and Counterparty Limits maintained on a daily basis with the Head of Accountancy Service's approval of any changes to current position.

1.2 Liquidity Risk Management

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

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

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

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

- a. Standby facilities
At the end of each financial day any unexpected surplus funds are transferred to the investment account which is available from the Council's main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.
- b. Bank overdraft arrangements
A £100k overdraft has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.
- c. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market.
- d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest Rate Risk Management

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

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

It will achieve this by the prudent use of its approved financing and investment 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 the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Details of approved interest rate exposure limits

The amount of borrowing of a short-term nature is restricted to limits as stated in the current treasury strategy.

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

In conjunction with Link Asset Services, interest rates are monitored on an ongoing basis. When interest rates are expected to increase, the Council will draw long-term borrowing. When interest rates are expected to remain low, the Council defer borrowing to later in the financial year. Consideration will be given to drawing long term borrowing early in the financial year when interest rates are perceived to be low and long-term borrowing costs lower than temporary borrowing. When variable interest rates are perceived to be rising above fixed rates then consideration should be given to locking into equivalent fixed rate loans. The treasury strategy will outline the view for the forthcoming year, with regards to interest rates and forecasts for interest rates.

1.3.3 Upper limit for fixed interest rate exposure

The maximum proportion of interest on borrowing which is subject to fixed rate interest
100%

The minimum proportion of interest on borrowing which is subject to fixed rate interest
70%

1.3.4 Upper limit for variable interest rate exposure

The maximum proportion of interest on borrowing which is subject to variable rate interest
30%

The minimum proportion of interest on borrowing which is subject to variable rate interest
0%

1.3.5 Policies concerning the use of instruments for interest rate management.

a. forward dealing

Consideration will be given to dealing from forward period's dependant upon market conditions. When forward dealing is more than 3 months forward then the approval of the Head of Accountancy Service is required.

b. LOBOS (borrowing under lender's option/borrower's option)

Use of LOBOs are considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Head of Accountancy Service.

1.4 Exchange Rate Risk Management

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

The Council has a minimal exposure to this risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

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

1.4.1 Approved criteria for managing changes in exchange rate levels

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.

1.5 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 organisation and/or that the terms are inconsistent with prevailing market conditions at the time.

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

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

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

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

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

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

Rescheduling will be reported to the Council at the meeting immediately following its action in the annual Review or Interim Treasury Report.

1.5.2 Projected Capital Investment Requirements

The responsible officer will prepare an eight year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The use of accounting practices to define capital expenditure is contained in Section 12 of the Local Government in Scotland Act 2003.

1.5.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this three year period. (Note: The Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Council will use the definitions provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, debt, financing costs, investments, net borrowing, net revenue stream, other long term liabilities.

1.5.4 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will: -

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

Decisions taken to borrow in advance will form part of the next treasury management report submitted to the Audit and Scrutiny Committee. The report will justify the decision to borrow in advance, reflecting the strategy and original assumptions provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

As a minimum, justification for any borrowing in advance will include the following: -

- Details of the borrowing in advance undertaken.
- The borrowing within the context of the overall requirement of the authority over the medium term (covering both capital programme needs and the existing debt maturity profile).
- The anticipated timing (date or financial year) as to when those funds are expected to be required.
- The prudential indicator which demonstrates that, in the medium term, borrowing will only be for capital purposes.
- The anticipated rate/s of interest expected to apply if the borrowing is deferred until the time the funds are required.
- The anticipated rate/s of interest expected to be achieved by investing the sums borrowed in advance.
- Details of how interest rates have been forecast and an explanation of the reasonableness of such forecasts should be provided.
- Any third party information or advice used or sought in this regard.
- The risks associated with borrowing in advance and what controls are in place to manage that risk.
- A discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

1.6 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.

This organisation 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 organisation, particularly with regard to duty of care and fees charged.

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

1.6.1 References to Relevant Statutes and Regulations

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

- Part VII Local Government (Scotland) Act 1973
- Schedule III Local Government (Scotland) Act 1975
- The Local Government in Scotland Act 2003 Part 7 section 36
- SSI. 2003 No.134 (C.7) The Local Government in Scotland Act 2003 (Commencement No.1) Order 2003
- SSI. 2004 No.28 (C.1) The Local Government in Scotland Act 2003 (Commencement No.2) Order 2004
- SSI. 2004 No.29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004
- Finance Circular 4/2007 Guidance on proper accounting practices March 2007
- Finance Circular 5/2010 Investment of Money by Scottish local authorities 1.4.10

- SSI. 2010 No.122 Local Authority Investments (Scotland) Regulations 2010 (these regulations disapply the Trustee Investments Act 1961 (b) to the extent to which it applies to local authority investment of money, except in so far as that Act (or any provision of it) is applied by or under any other enactment)
- SSI. 2016 No. 123 The Local Government Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
- Requirement to set a balanced budget - Local Government (Scotland) Act 1973 section 108(2) and Local Government Finance Act 1992 section 93(3)
- Local Government (Scotland) Act 1973 section 95 – duty on the CFO to ensure proper financial administration.
- Local Government (Scotland) Act 1975 – power to maintain a loans fund.
- Scottish Office Circular 29/1975 – prescribes annual repayments of principal to the loans fund.
- Housing (Scotland) Act 1987 – requirement to maintain an HRA; schedule 15 sets out income and expenditure to be charged to it.
- Housing (Scotland) Act 1987 section 203(1) - definition of HRA capital expenditure.
- CIPFA Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – Guidance Notes for practitioners 2013
- CIPFA Local Authority Capital Accounting – a reference manual for practitioners 2014 Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous Professional Development 2013
- CIPFA Standard of Professional Practice on Ethics 2011
- CIPFA The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- Financial Services Authority's Code of Market Conduct
- Bank of England – The UK Money Markets Code 2017
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

1.6.2 Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government in Scotland Act 2003, section 40

Borrowing: Schedule III Local Government (Scotland) Act 1975

In addition, it will make available on request the following: -

- a. The scheme of delegation of treasury management activities stating which officers carry out these duties.
- b. Documentation of which officers are the authorised signatories.

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moody's and Standard & Poor's.

1.6.3 Statement on the Council's Political Risks and Management of Same

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

1.6.4 Monitoring Officer

The monitoring officer is the Deputy Chief Executive; the duty of this officer includes ensuring that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Head of Accountancy Service; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

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

The Council will therefore:-

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

1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.

Procedures

- All CHAPS payments will be appropriately authorised and processed in line with banking procedures.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Logotech Public Sector Treasury Management system.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Chief Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Chief Accountant for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The Logotech Public Sector Treasury Management system prompts the Senior Treasury Officer that money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury management team is an authorised signatory.
- Payments can only be authorised by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- The Logotech Public Sector Treasury Management system can only be accessed by a password.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The Logotech Public Sector Treasury Management system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.
- We have complied with the requirements of SORP (pre 1st April 2010 FRS 26) and IFRS Code (post 1st April 2010 IAS 39) and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Logotech Public Sector Treasury Management system.
- The Logotech Public Sector Treasury Management system automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.
- Interest and expense rates are used to calculate the principal, interest and debt management expense charges to the Loans Fund and the Housing Revenue Account recharge.

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server to enable files to be accessed from remote sites.

1.7.3. Insurance Cover Details

Fidelity Insurance

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

This cover is limited to £5m for any one event with an excess of £10,000 for any one event.

Professional Indemnity Insurance

The Council also has a 'Professional Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5m for any one event with an excess of £5,000 for any one event.

Business Interruption

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

1.8 Market 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 protect itself adequately.

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

1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

Treasury Management Practices 2 : Performance Measurement

2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

- a. Periodic reviews carried out by the treasury management team.
- b. Reviews with our treasury management consultants.
- c. Annual review after the end of the year as reported to Council.
- d. Half yearly monitoring reports to Council.
- e. Comparative reviews.
- f. Strategic, scrutiny and efficiency value for money reviews.

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every 3 months to review the performance of the investment and debt portfolios.

2.1.2 Annual Treasury Management Review Report after the end of the financial year

An Annual Treasury Report, including the Annual Investment Report, is submitted to Council each year after the close of the financial year which reviews the performance of the debt / investment portfolios. This report will be produced within six months after the financial year end and will contain the following: -

- a. Total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement.
- b. Borrowing strategy for the year compared to actual strategy.
- c. Whether or not a decision was made to defer borrowing or to borrow in advance.
- d. Assumptions made about interest rates.
- e. Investment strategy for the year compared to actual strategy.
- f. Explanations for variance between original borrowing and investment strategies and actual.
- g. Debt rescheduling done in the year.
- h. Actual borrowing and investment rates incurred through the year.
- i. The Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together with details of any remedial action taken. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem.
- j. The Report shall include details of any review of long term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy.
- k. Compliance with Prudential and Treasury Indicators.
- l. Other.

2.1.3 Comparative reviews

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

Data used will be sourced from: -

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

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt.
- Average rate on external debt borrowed in previous financial year.
- Average rate on internal borrowing.
- Average period to maturity of external debt.
- Average period to maturity of new loans in previous year.

2.2.2 Investment.

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a 5 years basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender every 5 years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.3.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and quality of services.

2.3.4 Consultants'/advisers' services

This Council's policy is to appoint professional treasury management consultants and separate leasing advisory consultants.

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

Treasury Management Practices 3: Decision – Making and Analysis

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury section has a computerised Logotech Public Sector Treasury Management system in which all investment and loan transactions are recorded. Full details of the system are covered in the user manual. The following records will be retained: -

1. Daily cash balance forecasts.
2. Brokers' confirmations for investment and temporary borrowing transactions.
3. Confirmations from borrowing /lending institutions where deals are done directly.
4. PWLB loan confirmations.
5. PWLB debt portfolio schedules.
6. Certificates for market loans, local bonds and other loans.

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis.
- Ledger reconciliation.
- Review of opportunities for debt restructuring.
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money).
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Council will:

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

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

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

3.1.3.3 In respect of investment decisions, the Council will:

- a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

- b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

Treasury Management Practices 4 : Approved Instruments, Methods and Techniques

4.1 Approved Activities of the Treasury Management Operation

- Borrowing.
- Lending.
- Debt repayment and rescheduling.
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.
- Managing cash flow.
- Banking activities.
- The use of external fund managers (other than Pension Fund).
- Leasing.

4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy.

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument

4.4 Approved Methods and Sources of Raising Capital Finance

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

On Balance Sheet	Fixed	Variable
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants
 Lottery monies
 PFI / PPP / NPD / hub
 Operating leases

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

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement including the Prudential and Treasury Indicators.

Treasury Management Practices 5: Organisations, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Council

- Approval of annual strategy.
- Approval of amendments to the organisation's, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing monitoring reports and acting on recommendations.

(ii) Audit and Scrutiny Committee

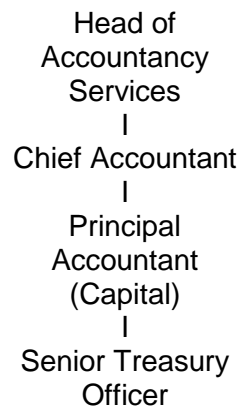
- Receiving and reviewing monitoring reports.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 Where practical the following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of brokers' confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Production of transfer note. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

5.3 Treasury Management Organisation Chart



5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Head of Accountancy Service. This person will carry out the following duties: -

- a. Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- b. Submitting regular treasury management policy reports.
- c. Submitting budgets and budget variations.
- d. Receiving and reviewing management information reports.
- e. Reviewing the performance of the treasury management function.
- f. Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- g. Liaising with external audit on the treasury management function.
- h. Recommending the appointment of external service providers.
- i. The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j. The responsible officer may delegate their power to borrow and invest to members of his staff. The Senior Treasury Officer must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least one of the following: Head of Accountancy Service, Chief Accountant or Principal Accountant (Revenues).
- k. The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
- m. It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Senior Treasury Officer

The responsibilities of this post will be: -

- a. Execution of transactions.
- b. Adherence to agreed policies and practices on a day-to-day basis.
- c. Maintaining relationships with counterparties and external service providers.

- d. Monitoring performance on a day-to-day basis.
- e. Submitting management information reports to the responsible officer.
- f. Identifying and recommending opportunities for improved practices.

5.4.3. The Chief Executive

The responsibilities of this post will be: -

- a. Ensuring that the system is specified and implemented.
- b. Ensuring that the responsible officer reports regularly to Council on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – Deputy Chief Executive

The responsibilities of this post will be: -

- a. Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b. Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c. Giving advice to the responsible officer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

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

5.5 Absence Cover Arrangements

If the Senior Treasury Officer is absent then cover will be provided by the Principal Accountant (Capital) or the Senior Accountant (Systems).

5.6 Dealing Limits

The following posts are authorised to deal: -

- Senior Treasury Officer
- Principal Accountant (Capital)
- Senior Accountant (Systems)

There are no dealing limits for individual posts, just restricted to the individual limits for each counterparty.

5.7 List of Approved Brokers

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

5.8 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers.

5.9 Policy on Taping of Conversations

It is not this Council's policy to tape brokers' conversations.

5.10 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts.
- Call Accounts.

- Money Market Funds.

5.11 Settlement Transmission Procedures

For payments a transfer will be made through the Banking Online system with transactions to be completed by 2.00 pm on the same day.

For payments out-with the online banking system a formal letter signed by an agreed authorised signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. In addition the council manages the treasury operations for East Renfrewshire Culture and Leisure Trust. Interest is given on credit balances for all third party funds at the average rate for internal balances for the year.

Treasury Management Practices 6: Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

Annual reporting requirements before the start of the year: -

- a) Review of the organisation's approved clauses, treasury management policy statement and practices.
- b) Strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement and Annual Investment Strategy.

Interim report

Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

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

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

The Treasury Management Strategy Statement is concerned with the following elements:

- a. Prudential and Treasury Indicators
- b. current Treasury portfolio position
- c. borrowing requirement
- d. prospects for interest rates
- e. borrowing strategy
- f. policy on borrowing in advance of need
- g. debt rescheduling
- h. investment strategy
- i. creditworthiness policy
- j. policy on the use of external service providers
- k. any extraordinary treasury issue

The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy

The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and is submitted for approval to Council. This report will set out the following: -

- a. Whether the CIPFA Treasury Management Code and the CIPFA Prudential Code have been adopted in full, or if not, provide an explanation.
- b. The Council's risk appetite in respect of security, liquidity and optimum performance.
- c. The definition of high credit worthiness.
- d. Which instruments the Council will use (permitted investments).
- e. Limits (by sum of money) for each permitted investment.
- f. The objectives of each type of investment.
- g. The different type of risks that each permitted investment is exposed to.
- h. The controls in place for limiting those risks.

- i. Explanations for an unlimited categorisation.
- j. Whether they will be used by the in house team, external managers or both (if applicable).
- k. The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list.
- l. Which credit rating agencies the Council will use.
- m. How the Council will deal with changes in ratings, rating watches and rating outlooks.
- n. Limits for individual counterparties and group limits.
- o. Country limits.
- p. Maximum value and maximum periods for which funds may be prudently invested.
- q. Interest rate outlook.
- r. Procedures for reviewing the holding of longer term investments.
- s. Details of how policies and practices will be scrutinised before being accepted and how they will be monitored and changed.
- t. Policy on the use of external service providers.
- u. Details as to where policies referred to in the Strategy may be obtained.

6.4 Policy on Prudential and Treasury Indicators

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

The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes to Council for approval.

6.5 Interim Report

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- a. Activities undertaken.
- b. Variations (if any) from agreed policies/practices.
- c. Interim performance report.
- d. Regular monitoring.
- e. Monitoring of treasury management indicators for local authorities.

6.6 Annual Review Report on Treasury Management Activity

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

- a. Performance report – see TMP2.1.3.
- b. Compliance report on agreed policies and practices, and on statutory/regulatory requirements.
- c. Report on compliance with CIPFA Code recommendations.

Treasury Management Practices 7: Budgeting, Accounting and Audit Arrangements

7.1 Statutory/Regulatory Requirements

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

7.2 Accounting Practices and Standards

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

7.3 Sample Budgets / Accounts / Prudential and Treasury Indicators

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

7.4 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records.
- Maturity analysis of loans outstanding.
- Certificates for new long term loans taken out in the year.
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type.
- Calculation of loans fund interest and debt management expenses.
- Details of interest rates applied to internal investments.
- Calculation of interest on working balances.
- Interest accrual calculation.
- Principal and interest charges reports from the Logotech system.
- Calculation of loans fund creditors and debtors.
- Annual Treasury Report.
- Treasury Management Strategy Statement including the Prudential and Treasury Indicators.
- Review of observance of limits set by Prudential and Treasury Indicators.
- External fund manager(s) valuations including investment income schedules and movement in capital values.

Treasury Management Practices 8: Cash and Cash Flow Management**8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

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

8.2 Bank Statements Procedures

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. Formal bank reconciliation is undertaken on a monthly basis.

8.3 Procedures for Banking of Funds

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

8.4 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

Treasury Management Practices 9: Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

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

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

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

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In June 2017 the UK Government published the Money Laundering Regulations 2017, which replaced the Money Laundering Regulations 2003 and 2007.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2017. However, as 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 this Council will do the following: -

- a. Evaluate 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 staff aware of their responsibilities under POCA.
- e. Appoint a member of staff to whom they can report any suspicions. This person is Head of Accountancy Services.
- f. In order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients

and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.

- g. The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Head of Accountancy Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fsa.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

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

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

Treasury Management Practices 10: Training and Qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a. Treasury management staff employed by the Council
- b. Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Performance Review and Development system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Principal Accountant (Capital) to ensure that all staff under their authority receives the level of training appropriate to their duties. This will also apply to those staff that from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members may go on courses provided by our treasury management consultants, CIPFA, money brokers etc., as appropriate.

10.2 Records of Training Received by Treasury Staff

The senior treasury officer will maintain records on all staff and the training they receive.

10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

10.4 Statement of Professional Practice (SOPP)

- a. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
- b. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.5 Member training records

Records will be kept of all training in treasury management provided to members.

10.6 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

Treasury Management Practices 11: Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and building societies
- The credit ratings of that government support

11.1.1 Banking Services

- a. Name of supplier of service is the Clydesdale Bank.
- b. Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c. The branch address is: 21 Kilmarnock Road, Glasgow, G41 3YW.

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Senior Treasury Officer every day to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Head of Accountancy Service.

- R.P. Martins Brokers Ltd.
- BGC Sterling Brokers Ltd.
- Tradition Brokers Ltd.
- King & Shaxson Ltd
- Agency Treasury Services (part of Link Asset Services).

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the senior treasury officer every 3 months to check whether performance has met expectations.

- a. Name of supplier of service is Link Asset Services. Their address is 65 Gresham Street, London EC2V 7NQ
- b. Regulatory status: investment adviser authorised by the FSA
- c. Contract commenced 16th October 2017 and runs for 5 years.
- d. Payments due on 14th April and 14th October.

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

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2

Treasury Management Practices 12: Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -

Treasury Management Policy Statement

Treasury Management Strategy Statement including the Annual Investment Strategy

Annual Treasury Management Review Report including the Annual Investment Report

Treasury Management monitoring reports (half yearly)

Annual accounts and financial instruments disclosure notes

Annual budget

8 Year Capital Plan

Minutes of Council / Cabinet / committee meetings

Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

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East Renfrewshire Council
Treasury Management Policy Statement

East Renfrewshire Council

Treasury Management Policy Statement

Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Definition

Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the management of the Council'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.

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 implications for the Council.

Effective treasury management will provide support towards the achievement of business and service objectives. The Council is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Approved Activities

The approved activities of the treasury management function are: -

- (i) Management of the Council's cash flow and preparation of monthly cash flow statements.
- (ii) Short-term borrowing and lending for periods up to 364 days in accordance with cash flow requirements.
- (iii) Long term borrowing to fund capital expenditure;
- (iv) Management of the Council's loans fund and utilisation of internal funds;
- (v) Maintaining contact with the Council's bankers, the PWLB and brokers in the market;
- (vi) Organisation of the Council's debt with particular regard to interest rates, a balance between long and short term debt and the profile of maturity dates;
- (vii) Debt repayment and rescheduling;
- (viii) Evaluation of factors which influence funding decisions and consideration of alternatives to long term borrowing;
- (ix) Consideration, approval and use of new financial instruments and treasury management techniques;
- (x) Managing the underlying risk associated with the Council's capital financing and surplus funds activities;

Delegated Powers

The Council has approved the delegation of powers to the Audit and Scrutiny Committee to monitor Treasury policy. Executive decisions on borrowing, investment or financing are delegated to the Head of Accountancy Service and through to staff who are all required to act in accordance with CIPFA's Code of Practice for Treasury Management in the Public Services.

In exercising of the delegated powers the Head of Accountancy Service requires staff to observe the following procedures: -

- (i) Funds in hand are to be placed in a high interest investment account with the Council's bankers until repayment of temporary borrowings or placing as a temporary deposit can be effected.
- (ii) If temporary borrowings have been repaid in full, placement of funds shall be restricted to recognised clearing banks, money market funds and local authorities as per the authorised counter-party list. The deposits in any one institution must not exceed £5million without the written consent of the Head of Accountancy Service. This limit of £5million has the following exceptions:
 - (a) The Council's bankers where, for practical and transactional reasons, the limit is £3million, although if it falls below the minimum criteria set then balances will be minimised in size and time.
 - (b) The deposit limit with Bank of Scotland is £10million;
 - (c) The deposit limit with Royal Bank of Scotland is £5million, included as long as it continues to be part nationalised, if it does not meet minimum criteria set;
 - (d) Deposits with all MMFs must not be greater than £35m and not greater than £5million in any one MMF, exception being Federated which is set at £10m.
- (iii) The Head of Accountancy Service must be specifically consulted prior to long term borrowing transactions taking place and must authorise these transactions in writing.

Approved Methods of Raising Finance

Borrowing can be for temporary short-term periods of up to one year to maturity or long-term over one year to maturity. Normally, approved short-term borrowing is arranged through brokers dealing on the London Money Market and will be repayable after a fixed term or after an agreed period of notice. Competitive market quotations are obtained for longer term borrowing although in practice loans are normally with the Public Works Loan Board. No methods of raising finance other than those listed below will be used without the approval of the Council.

- (i) Approved Sources - Short-term
 - London Money Market
 - Bank Overdraft
 - Bank Loan
 - Internal Balances
- (ii) Approved Sources - Long-term
 - PWLB Fixed Maturity Loans
 - PWLB Fixed Annuity Loans
 - PWLB Fixed EIP Loans
 - PWLB Variable Rate Loans
 - Bank Fixed Rate Loans
 - Bank Variable Rate Loans
 - Market Fixed & Variable Rate Loans (Lobo's)
 - Internal Balances
 - Local Authority Bonds
 - Government Sources

- (iii) Leasing – Operating, Finance and Hire Purchase

Approved Organisations for Investment

Lending is in the form of short-term sterling deposits with organisations approved as per the authorised counter-party list, which is regularly reviewed.

Only investments approved by the Council are permitted to be used and these are detailed in the Annual Treasury Strategy report.

External Managers

External Treasury managers will only be appointed with the approval of the Council. No such appointment is envisaged at present.

The Head of Accountancy Service will however continue to use brokers and advisers in connection with Treasury Management.

Interest Rate Exposure

Long-term borrowing is normally at fixed rates of interest as this leads to greater stability in overall borrowing costs. However some exposure to variable rate loans can also be appropriate particularly when there are interest rate fluctuations.

Exposure to longer-term variable rates loans (excluding PWLB) and temporary short –term loans taken together will not exceed 30% of the total debt outstanding.

A strategy for responding to interest rate volatility is incorporated in the Annual Treasury Strategy Report submitted to the Council for approval.

Reporting Procedures

The Head of Accountancy Service shall report every six months to Council on the activities of the Treasury Management operation and on the exercise of the powers delegated. One of these reports will cover the year to 31st March and will be presented by 30th September of the succeeding financial year.

Prior to the start of a financial year the Head of Accountancy Service shall also report to the Council on the strategy it is proposed to adopt with regard Treasury Management in the forthcoming financial year.

All reports will be presented to the Audit and Scrutiny Committee for review prior to being recommended to Council for Approval.