Rochford District Council

REPORT TITLE:	**Capital and Treasury Management Strategy 2024/25**
REPORT OF:	**Tim Willis**

REPORT SUMMARY

The Capital and Treasury Management Strategy sets out the framework for the forthcoming financial year for the Capital and Treasury activities of the Council. It sets the Prudential Indicators against which the performance of the Council in these areas can be monitored throughout the year.

RECOMMENDATIONS

R1 - Recommend approval of the Capital and Treasury Management Strategy 2024/25 to Full Council on 20 February.

SUPPORTING INFORMATION

1 INTRODUCTION

1.1 This report sets out the Council's Capital and Treasury Management Strategy for 2024/25 and seeks the views of the Overview & Scrutiny Committee on the approach proposed in this Strategy, before it is presented for approval by Full Council on 20 February 2024.

1.2 In financing capital expenditure, local authorities are governed by legislative frameworks, including the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code). An updated Prudential Code and Treasury Management Code were published by CIPFA in December 2021.

1.3 The revised Treasury Management Code requires all investments and investment income to be attributed to one of three purposes:-

- **Treasury management -** Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

- **Service delivery -** Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

- **Commercial return -** Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.4 The following are also required to be implemented under the new code:-

- **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

- **Long-term treasury investments** (including pooled funds) are to be classed as commercial investments unless justified by a cash flow business case;

- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

- **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

- **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

1.5 The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. Local authorities determine their own programmes for investment; however, in order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.6 There are requirements of the Prudential Code in relation to service and commercial investments, however this authority does not currently have these investments and therefore these requirements are not detailed in this report. Key to this is that there should be Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices). These will be developed if the Council moves into these investment types.

1.7 This Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. It provides a projection of the Council's capital financing requirement and explains how the Council will make prudent revenue provision for the repayment of any debt. The Strategy also sets out the Council's policy approach to commercial investment activities, including processes, due diligence and defining the Council's risk appetite in respect of these.

1.8 The Strategy also sets out the Council's approach to treasury management investment activities and includes the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed. The Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management are set out, alongside the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite.

1.9 The treasury management investment strategy proposed for 2024/25 is consistent with that applied in previous years. The Council has a good track record with regard to its treasury investment activity, adhering to the statutory requirement to give priority to security and liquidity over yield. Internal Audit's most recent review issued a 'good' assurance opinion on the management of these activities, confirming that internal controls are consistently adhered to.

1.10 The distinct, but inter-related, elements of this Strategy therefore collectively demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long-term context in which capital expenditure and investment decisions are made, and by giving due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.11 The Capital Strategy should include:-

- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

1.12 Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy). An Economic Background Summary is provided by LINK Group, the Authorities Treasury Management Advisors. This can be found at Appendix Two to this report.

2 REPORTING

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:-

1. The Capital and Treasury Management Strategy (this report), which covers:-

   – the capital plans (including prudential indicators);
   – a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   – the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   – an investment strategy (the parameters on how investments are to be managed).

2. The Mid-Year Treasury Management Report which will update Council with the progress of the capital position, update prudential indicators as necessary, and consider whether the Treasury Strategy is delivering its objectives or whether any policies require revision.

3. Annual Strategy report (reported to Council in June/July). This provides details of actual performance of prudential and treasury indicators compared to the estimates within this report.

2.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview & Scrutiny Committee.

2.3 In addition to the three major reports detailed above, quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised.

3 CAPITAL AND TREASURY MANAGEMENT STRATEGY

3.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:-

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

3.2 The Capital and Treasury Management Strategy comprises a number of distinct, but inter-related, elements including:

<u>Capital issues</u>

- **Capital expenditure (see Section 4)**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

- **Capital financing and borrowing (see Section 5)**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt (Minimum Revenue Provision (MRP) Policy Statement).

<u>Treasury Management Issues</u>

- **Other Prudential Indicators (see Section 6)**
- **Borrowing Strategy (see Section 7)**
- **Treasury Management Investments (see Section 8)**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed. Includes Treasury Indicators.
- **Annual Investment Strategy (see Section 9)** (including current treasury position).
- **Commercial Investments (see Section 10**); provides an overview of those of the Council's policy on commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these.
- **Credit Ratings (see Section 11)**, including policy on use of external providers, and interest rate forecasts.
- **Liquidity Risk Management (see Section 12)**
- **Cash Flow Management (see Section 13)**
- **Scheme of Delegation (see Section 14)**
- **Treasury Management Policy and Practices (see Section 15)**
- **Knowledge and skills (see Section 16)**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite.

4 CAPITAL EXPENDITURE

Capitalisation policies

4.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, roads and bridges, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Are of continuing benefit to the Council for a period extending beyond one financial year.
- Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

4.2 There may be instances where expenditure does not meet this definition but would nevertheless be treated as capital expenditure, including:

- Where the Council has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and
- Where statutory regulations require the Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

Governance

4.3 The Section 151 Officer manages the preparation of a capital programme on an annual basis which is presented to Full Council for approval as part of the Medium-Term Financial Strategy report.

4.4 Schemes will usually only be added to, or removed from, the capital programme as part of the annual budget setting process. Any request outside of this process to change the capital programme by adding or removing schemes, or by allocating additional scheme and payment approvals to an approved scheme, must be approved by Full Council in line with the Council's financial regulations.

4.5 Any project that is added to the Capital Programme will be for the purposes of delivering public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

4.6 The Section 151 Officer will also monitor performance against the Council's approved capital programme on an on-going basis, as part of the quarterly financial reports, which are presented to Executive by the Portfolio Holder for

Finance. These financial overview reports will provide a comparison of the Council's projected expenditure with the latest approved capital programme.

Capital Expenditure Plans

4.7 When expenditure is classified as capital expenditure, this means that the Council is able to finance that expenditure from the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.
- Capital receipts – amounts generated from the sale of assets and from the repayment of capital
- Loans, grants or other financial assistance.
- Revenue contributions – amounts set aside from the revenue budget or earmarked reserves
- Borrowing/Finance Leases - amounts that the Council does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future. The implications of financing capital expenditure from borrowing are explained in Section 7.

5 CAPITAL FINANCING AND BORROWING

5.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The capital expenditure plans are reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

5.2 The table below summarises the Council's proposed capital expenditure plans for the period to 2028/29 and how these would be financed. The detail of the proposed capital investment of £3.885m in 2024/25 will be presented to Full Council on 20 February 2024 as part of the Medium-Term Financial Strategy.

Capital Expenditure and the Capital Financing Requirement.

£000s	2022/23 Outturn	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Opening CFR	**777**	**777**	**777**	**777**	**777**	**777**	**777**
Capital Expenditure	3,836	3,675	3,885	825	825	825	825
Financed by:							
Capital Receipts Reserve	566	1,055	1,400	255	255	255	255
Capital Grants	913	576	1,010	540	540	540	540
Other Earmarked Reserves	2,357	1,326	1,155	-	-	-	-
Revenue Contribution	-		290	-	-	-	-
Developer Contributions	-	389	30	30	30	30	30
New Homes Bonus Income	-	280	-	-	-	-	-
Match Funding	-	50	-	-	-	-	-
Closing CFR	**777**	**777**	**777**	**777**	**777**	**777**	**777**

5.3 The Capital Expenditure reflected in the table above is the draft position before approval by Council so may change. Any changes will then be reflected in future CFR predictions.

5.4 The CFR is the total historic outstanding capital expenditure which has not yet been funded from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been funded by capital receipts or grants, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is the statutory annual revenue charge.

5.5 The adoption of the International Financial Reporting Standard (IFRS) 16 is from 1 April 2024. An initial high level overview of existing leases has been undertaken. Leases should be shown on the balance sheet. There are not anticipated to be any new leases / contracts with Right of Use assets at this point that need to be shown as new capital expenditure, however existing leases if applicable will now be required to be included in the Fixed Asset Register.

5.6 The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Liability benchmark £000s	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Existing Loan Debt Outstanding	-	-	-	-	-
Net Loans Requirement	(22,500)	(20,000)	(18,000)	(16,000)	(16,000)
Loans CFR	777	777	777	777	777
Liability Benchmark	(21,500)	(19,000)	(17,000)	(15,000)	(15,000)
(Over)/Under Liability Benchmark	(23,800)	(23,800)	(23,800)	(23,800)	(23,800)

Minimum Revenue Provision (MRP) Policy Statement

5.7 As noted above the Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure that the Council yet to fund from cash resources. Instead, the Council is required to set aside monies from the revenue budget each year to repay the borrowing. This practice is referred to as making minimum revenue provision (or MRP) for the repayment of debt. Statutory guidance requires MRP to be provided annually on a prudent basis and interprets 'prudent' to mean that MRP charges on unsupported borrowing should be made over a period commensurate with the period the assets financed from borrowing continue to provide benefit. Where it is practical or appropriate to do so, the Council may make voluntary revenue provision to reduce debt over a shorter period or to apply capital receipts to reduce the debt principal.

5.8 Any future borrowing by the Council will require an MRP recognition through the revenue account, which will be considered as part of any future business case and the preferred method would be the Asset Life method (by way of either Equal Instalment or Annuity). MRP will only start to be charged in the year after the asset becomes operational.

5.9 Where assets are funded through finance lease agreements, MRP is made over the life of the contract. This includes expenditure on some assets where lease repayments would have been treated directly as operational revenue expenditure in prior years, but are now treated as capital expenditure and included on the balance sheet, per the requirements of IFRS16.

5.10 The MRP Policy Statement requires full council approval in advance of each financial year.

6 OTHER INDICATORS

The Use of the Council's Resources and the Investment Position

6.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Affordability Prudential Indicators

6.2 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

Year End Resources £000	**2023/24 Forecast**	**2024/25 Forecast**	**2025/26 Forecast**	**2026/27 Forecast**	**2027/28 Forecast**	**2028/29 Forecast**
Earmarked Reserves & General Fund Balance	9,910	7,909	7,308	6,551	6,593	6,632
Capital Receipts Reserve	1,217	-	-	-	-	-
Total Core Funds	**11,127**	**7,909**	**7,308**	**6,551**	**6,593**	**6,632**
Expected Investments	**12,627**	**9,409**	**8,808**	**8,051**	**8,093**	**8,132**

6.3 The indicators are designed to support and record local decision making in a manner that is publicly accountable but are not designed to be comparative performance indicators to other organisations. There are no recommended limits or values for the indicators.

6.4 These provide an indication of the impact of the capital investment plans on the Council's overall finances. Members are asked to approve the following indicators.

Ratio of financing costs to net revenue stream (revenue budget).

6.5 The table below shows the impact of borrowing compared to the general fund. It is negative because the Council does not currently borrow and so this represents only the interest received on investments as a comparison to the revenue budget.

%	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Ratio of Financing Costs to Net Revenue Stream	-8.28%	-4.26%	-3.34%	-2.82%	-2.36%

Incremental impact of capital investment decisions on band D council tax.

6.6 If the capital programme was to be funded through revenue (council tax) this indicator identifies the revenue costs associated with proposed changes to the capital programme.

	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Capital Expenditure (£000s)	3,675	3,885	825	825	825
Incremental impact of capital investment (£000s)	(162)	210	(3,060)	0	0
Council tax base (Units)	32,888.9	33,010.0	33,340.1	33,673.5	34,010.2
Council tax Band D impact(£s)	(£5)	£6	(£92)	£0	£0

7 BORROWING

7.1 The Council does not currently have any borrowing. However, as particular business cases are put forward for consideration, it is possible that borrowing would be considered in future for larger capital schemes and this would need to be agreed on a case-by-case basis.

7.2 Borrowing may be considered for “invest to save” projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates, the project generates a positive net present value and the payback period is shorter than the life of the asset.

7.3 Per paragraph 51 of the Prudential Code in relation to investments for commercial purposes, this authority will not borrow to invest primarily for financial return. Nor will it borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

7.4 Should the authority need to borrow, then it would be approved to borrow from the following sources:-

- Public Works Loans Board and any successor body
- Any other UK local authority or public sector body
- Any UK bank or building society

7.5 Any other sources of borrowing would need further research and diligence checks and would be included in the business case for the project for borrowing.

HQ relocation

7.6 The HQ relocation project has replaced the Asset Delivery Programme to deliver the move of the Council Offices to new premises. This is included as an item in the Capital Programme, but at an amount capped by the estimated Capital Receipts from the sale of the existing offices. If there are any requirements for borrowing, approval will be requested in future reports to Council. Business cases have yet to be developed for the HQ relocation and the timing of expenditure on the project and asset sales required to fund the project are still to be ascertained. But there is a possibility of the need for short-term borrowing to fund the period between incurring the capital expenditure and generating the capital receipts from sales.

7.7 The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source including Internal

7.8 In conjunction with advice from its treasury advisor, the council will keep under review the following external borrowing sources:

- Public Works Loan Board (PWLB) (or its replacement)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except for Essex Pension Fund)
- Capital market bond investors
- Municipal Bonds Agency - created to enable local authority bond issues
- Capital markets (stock issues, commercial paper and bills)
- Finance Leases

7.9 Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, to ensure they are affordable.

7.10 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. With the Equal Instalment approach, MRP is determined by reference to the life of the asset and an equal amount charged in each year. The Annuity method involves a more complex calculation. Here, MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

8 TREASURY MANAGEMENT

8.1 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.

8.2 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.

8.3 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

8.4 The core investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed.

8.5 Both the CIPFA Code and the Department of Levelling Up, Housing and Communities (DLUHC) guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its Treasury Management investments before seeking the highest rate of return, or yield. The generation of investment income to support the Council's spending plans is an important, but secondary objective. Investment in commercial activities or for wider strategic objectives may be subject to different criteria than those applied to funds invested purely for Treasury Management purposes, as set out in Section 10 below.

8.6 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 organisation, and any financial instruments entered into to manage these risks.

8.7 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 INDICATORS: LIMITS TO BORROWING ACTIVITY

8.8 The Council is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR).

8.9 To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- **Authorised boundary limit** – this defines the maximum amount of external debt permitted by the Council, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.

- **Operational boundary limit** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

8.10 The Authorised and Operational limits are based on the assumption that there will be long-term borrowing to fund capital expenditure and that borrowing will be to fund long and short term cash flow requirements. The limits include balance sheet liabilities such as finance leases and creditors, with the exception of IFRS16 changes noted at paragraph 5.4 above.

£000s	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Operational boundary Limit	777	777	777	777	777
Authorised boundary Limit	977	977	977	977	977

Treasury Management Limits on Activity

8.11 There are debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are too restrictive they will impair the opportunities to reduce costs / improve performance.

8.12 The limit indicators are shown separately for borrowing and investments. Fixed rates for investments or borrowing for a period of less than one year are treated as variable by the Prudential Code.

Interest rate Exposures %	
	Upper
Limits on fixed interest rates:	
Borrowing	100%
Investments	100%
Limits on variable interest rates:	
Borrowing	25%
Investment	100%

9 ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

9.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. The treasury strategy section of this report deals solely with treasury (financial) investments, (as managed by finance). Non-financial investments would be covered in the Capital Strategy section if applicable.

9.2 The Authority's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

9.3 The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

9.4 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** (section 11) are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. This Authority has defined the list of **types of investment instruments** (section 9.5) that the treasury management team are authorised to use. There are no 'non-specified' investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

4. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in 11.3.

5. **Transaction limits** are set for each type of investment in 11.3.

6. This Authority does not currently invest for **longer than 365 days**, for its regular investments. The investment types in paragraph 11.9, if chosen, will be invested for a longer period to benefit from the yield that longer investment would deliver.

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 11.1).

8. This Authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

9. All investments will be denominated in **sterling**.

10. However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

9.5 The Council has no plans to deviate from its current investment strategy for Treasury Management investments. A full list of those items included in the 2024/25 strategy are:

- Term and Call Deposits with banks and building societies
- Term deposits, call deposits and bonds with other UK Local Authorities
- Certificates of deposit with banks and building societies
- Deposit Facility
- Money Market funds (both Standard and Enhanced)
- Debt Management Agency Deposit Facility (Government Managed)
- Treasury Bills

9.6 As at the end of Quarter 3 2023/24, the Council's investment portfolio was as shown in the table below.

Investments at 31.12.23	Amount (£000)
Money Market Funds – Instant Access	15,000
Handelsbanken – Fixed Term	6,000
Lloyds – 5 months	3,000

10 COMMERCIAL INVESTMENTS

10.1 Statutory guidance on local authority investments (issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003) classifies local authority investments into the following categories:

- Investments held for treasury management purposes
- Other investments

10.2 Investments held for treasury management purposes are dealt with in the 'Treasury Management' section of this document. This section deals with 'other investments', where the intention is for investments to contribute to the Council's service delivery objectives and/or place making role.

10.3 The Council does not currently hold any investments for non-Treasury Management purposes.

10.4 Any project that is added to the Capital Programme will be for the purposes of delivering public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. No schemes will be added to the Capital Programme if their only purpose is to achieve a financial return.

Loans to Subsidiaries, Local Enterprises and Third Parties

10.5 Loans to subsidiaries, local enterprises and third parties may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

10.6 Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;
- The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;

- Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;

- A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of subsidy control rules) and any other terms that will protect the Council from loss;

11 CREDIT RATINGS

11.1 This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;

- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands: -

LINK Colour Coding	Maximum Duration	Maximum Investment
No colour	Not to be used	0
Green	100 days	£6m
Red	6 months 100 days	£3m £6m
Orange	1 year 6 months 100 days	£1m £3m £6m
Blue	1 year 6 months 100 days	£4m £3m £6m
Purple	2 years 1 year 6 months 100 days	£3m £4m £3m £6m

11.3 Due Care will be taken to consider the exposure of the Authority's total investment portfolio, and the table below gives the maximum duration and investment for each.

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	6 months	£14m
Lloyds Bank current account The Council's main banker	On call (can be withdrawn immediately)	£5m
Money Market Funds CNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Money Market Funds LVNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Money Market Funds VNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Certificates of Deposit and Treasury Bills.	Will follow the LINK Colour Coding limits as per the above table.	Will follow the LINK Colour Coding limits as per the above table.
Local Authorities	1 year	£3m

11.4 The Link Groups' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

11.5 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

11.6 All credit ratings will be monitored weekly. The Council is alerted to changes in ratings of all three agencies through its use of Link Groups creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

11.7 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

11.8 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

11.9 The strategy for 23/24 included some new types if investment, these have not yet been utilised. As these are a new investment instrument, a selection process will be undertaken to ensure that the most suitable fund is chosen if considered worthwhile to pursue. Due to the nature of these funds, investment would be required over 365 days, therefore more detailed consideration of the long term cashflow requirements and available liquid funds would need to be made to ensure the available resource for these investment types. The types of investment included are:-

- Ultra-Short/Shortdated Bond Funds
- Corporate Bonds - direct, passive and active external management (including Short Dated Bond Funds)
- Multi Asset Funds
- Property Funds
- Equity Funds
- Receivables Funds

CDS prices

11.10 Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

Country Limits

11.11 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

11.12 Countries other than the UK will be subject to a £3m investment limit for duration of up to one year, subject to Section 151 Officer authorisation.

Investment Management

11.13 The Council does not use a fund manager and funds are managed in-house. Investments will accordingly be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

11.14 Accordingly, while most cash balances are required in order to manage cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.

11.15 The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 7 November 2023, which forecast Bank Rate, average earning and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

11.16 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year are as follows:

Average earnings in each year	Now
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
2028/29	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

11.17 There are a number of significant risks to the above forecasts, however the forecasted position provided by LINK will continue to be reviewed.

11.18 For its cash flow generated balances, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

11.19 It is expected that this authority will have sufficient funds to invest that will realise a return on investments c£600,000 for the financial year 2024/25.

11.20 At the end of the financial year, the Council will report on its investment activity as part of its Annual Strategy Report.

Investment Performance / Risk Benchmarking

11.21 This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 1 or 3 month Sterling Overnight Index Average (SONIA).

12 LIQUIDITY RISK MANAGEMENT

12.1 This council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have sufficient liquidity in its investments, taking into account known and potential cash-flow requirements and the level of funds available to it which are necessary for the achievement of its business/service objectives.

12.2 Giving due consideration to the Council's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the Council will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year, unless a sum is identified for the investment in a vehicle listed in para 11.9.

13 CASH AND CASH FLOW MANAGEMENT

13.1 The objective should be to keep low interest cash balances at an optimum and maximise temporary investments. There is likely to be a difference between forecast activity and actual activity and therefore working capital will need to be subject to regular review and report to Review Committee / Full Council in the light of changing levels of activity.

13.2 The council will prepare reports which include cash flow forecasts and actuals on a 12-month rolling basis so as to be able to determine:

- whether minimum acceptable levels of cash balances plus short-term investments might be (or have been) breached
- the adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements
- the optimum arrangements to be made for investing and managing surplus cash.

14 SCHEME OF DELEGATION

14.1 Under the Code, the Council is required to specify its Scheme of Delegation for Treasury Management and the responsibilities of the Section 151 Officer, and this is shown below:-

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy
- budget consideration and approval.
- receiving the end of year report on treasury management.

(ii) Overview & Scrutiny Committee

- scrutiny of the three main treasury reports, before recommendation to Council or Executive.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(iv) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(v) Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, ensuring it is prudent, sustainable and affordable.

15 TREASURY MANAGEMENT POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

15.1 A revised Treasury Management Code was published by CIPFA in December 2021; there is a requirement to report on this from 2023/24 onwards.

15.2 The Treasury Management Code has a particular significance under the provisions of the Local Government Act 2003 which requires local authorities

‘*to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify*’.

15.3 The current Treasury Management Code contains the following definition of treasury management activities which has been adopted by CIPFA:

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

This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

15.4 It clarifies that ‘investments’ in the above definition covers all the Council’s financial assets, as well as other non-financial assets held primarily for financial returns if applicable. This means that it encompasses investments which are not managed as part of normal treasury management or under treasury management delegations.

15.5 The Treasury Management Code identifies three key principles for treasury management:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives, and that within the context of effective risk management, their treasury management policies and practices should reflect this.

15.6 In accordance with these principles, the Council had previously adopted a Treasury Management Policy Statement, which set out the policies, objectives and approach to risk management of its treasury management activities, and a series of Treasury Management Practices (TMPs), which set out the manner in which the Council sought to achieve its policies and objectives for treasury management.

15.7 These have been reviewed for 2024/25 with minor amendments for role changes.

16 KNOWLEDGE AND SKILLS

16.1 The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Section 151 Officer is responsible for recommending and implementing the necessary arrangements and does this by:

- **Ensuring officers are both capable and experienced**. All individuals involved in the delivery of the treasury management function are required to undertake continuing professional development.
- **Providing training and technical guidance**
  All individuals involved in the delivery of the treasury management function are provided with access to relevant technical guidance and training

necessary to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.

- **Appointing a treasury management and other professional advisors** By employing external providers of treasury management services, the Section 151 Officer ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources.

16.2 In order to assure this:-

- Attendance at training should be recorded and action taken where poor attendance is identified.
- Learning plans should be put in place for treasury management officers and members and tailored for need.
- Officers and members should be required to undertake self-assessments against required competencies.
- Encourage officers and members to highlight training needs on an ongoing basis.

16.3 The Council uses the services of Link Groups "Link" as its external treasury management advisors.

16.4 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

16.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will 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.

16.6 The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. This is fulfilled via annual training sessions. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

4.0 RELEVANT RISKS

4.1 As an authority that does not currently have any debt the Council's highest priority in its treasury management function is the security of its investments in accordance with the priorities set out in the CIPFA Code. Sums are invested with a range of counter parties to minimise the risk of the capital sum being diminished through movements in prices.

4.2 The Council, whilst fundamentally risk adverse, will accept some modest degree of risk in its Treasury Management activities. It will consider first the range of risks and secondly how prudently to manage those different risks. It will ensure that priority is given to security and liquidity when investing funds for Treasury Management purposes before seeking to optimise yield. The use of different investment instruments and diversification of high credit quality counter parties along with country, sector and group limits, as set out in the Strategy, enables the Council to minimise the nature and extent of the different risks.

4.3 The Council does not currently hold any investments for non-Treasury Management purposes. Non-core activities and investments may be considered by the Council in future, subject to the appropriate governance, to support the Council's wider strategic objectives and/or place-making role. Such investments would only be entered into following a full assessment of the risks and having secured expert external advice (where it is relevant to do so).

5.0 ENGAGEMENT/CONSULTATION

5.1 Not applicable

6.0 FINANCIAL IMPLICATIONS

6.1 All interest paid and received is accounted for within the General Fund. The amount of income generated is dependent upon interest rates and level of balances.

7.0 LEGAL/GOVERNANCE IMPLICATIONS

7.1 This strategy complies with the statutory requirements set out in the Local Government Act 2003 and associated guidance and regulations.

8.0 EQUALITY & HEALTH IMPLICATIONS

8.1 None

9.0 ENVIRONMENT & CLIMATE IMPLICATIONS

9.1 The Treasury Management Practices in Appendix 1 gives consideration to Environmental, Social and Governance policy.

10.0 ECONOMIC IMPLICATIONS

10.1 This strategy ensures that Capital plans are affordable, and treasury is managed in such a way to ensure a level of yield to enable the council to continue to provide and invest in services.

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APPENDICES

Appendix 1 – Treasury Management Practices

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
MTFS (including the Capital Treasury Management Strategy 2023/24)	21 February 2023.

ROCHFORD DISTRICT COUNCIL

TREASURY MANAGEMENT PRACTICES

JANUARY 2024

Treasury Management Practices

CIPFA recommends that an organisation's treasury management practices (TMPs) include those of the following that are relevant to its treasury management powers and the scope of its treasury management activities.

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money Laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

TMP1 Risk Management

The Chief Finance Officer (Section 151) 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 Rochford District Council'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

Credit and counter-party risk is the risk of failure by counterparty to meet its contractual obligations to Rochford District Council 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 Rochford District Council's capital or current (revenue) resources.

Rochford District 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 its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques 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 arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Rochford District Council will use the Treasury solutions creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

LINK Colour Coding	Maximum Duration
No colour	Not to be used
Green	100 days
Red	6 months
Orange	1 year
Blue	1 year
Purple	2 years

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 LINK "Treasury solutions Credit Policy Guide" for a full explanation.

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. 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.
5. Credit ratings for individual counterparties can change at any time. The Chief Finance Officer (Section 151) is responsible for applying approved credit rating criteria add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
6. Rochford District Council 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: -

- Credit watches & credit outlooks from credit rating agencies
- Credit default swaps (CDS) to give early warning of likely changes in credit ratings.

- Sovereign ratings to select counterparties from only the most creditworthy countries.

7. maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	6 months	£14m
Lloyds Bank current account The Council's main banker	On call (can be withdrawn immediately)	£5m
Money Market Funds CNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Money Market Funds LVNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Money Market Funds VNAV – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Certificates of Deposit and Treasury Bills.	Will follow the LINK Colour Coding limits as per the above table.	Will follow the LINK Colour Coding limits as per the above table.
Local Authorities	1 year	£3m

8. Diversification: Rochford District Council 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 - £6m
   - Group limits where a number of institutions are under one ownership – maximum of £6m
   - Country limits – a minimum sovereign rating of AA+_ is required for an institution to be placed on our approved lending list. Council approved the 2016/17 Treasury Management Strategy on the 19 April 2016, following recommendation from Review Committee on the 12 April 2016. This strategy stated that Rochford District Council would only invest in counterparties with a sovereign rating of AA+ or better. Following the European Referendum, and the vote in favour of leaving the European Union, the United Kingdom's credit rating has been reduced to AA, from AAA. The Treasury advisors have advised that it would be very unlikely for a UK institution to be allowed to default, given the Governments robust financial backing and the consequences this might have on the industry as a whole.

9. Investments will not be made with counterparties that do not have a credit rating in their own right.

10. The definition of **'high credit quality'** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings. This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail **minimum procedural formalities** in terms of the placing of those investments by the treasury

management team. Minimal procedural formalities mean that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.

1.1.2 Policy on environmental, social and governance (ESG) considerations

The organisation'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.

Policy on ESG issues

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*
>
> *At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*
>
> *In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*
>
> *In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*
>
> *With this in mind, we share a common vision* ***to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness****."*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

.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 Rochford District Council's business/service objectives will be thereby compromised.

Rochford District Council 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.

Rochford District Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons: -

- to fund the current capital programme
- to finance future debt maturities, or
- to ensure an adequate level of short-term investments to provide liquidity for the organisation.

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, unless the interest rate achieved means its beneficial to leave funds there. Borrowing or lending shall be arranged in order to achieve this aim.

1.3 Interest Rate Risk Management

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

Rochford District Council 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

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

1.3.3 Upper limit for fixed interest rate exposure and

1.3.4 Upper limit for variable interest rate exposure

- refer to the annual Treasury Management Strategy Statement

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on Rochford District Council's finances, against which Rochford District 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.

1.4.1 Approved criteria for managing changes in exchange rate levels

Rochford District Council has no exposure to fluctuating exchange rates as it only invests in pounds sterling

1.5 Inflation Risk Management

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

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 Rochford District Council for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Rochford District Council 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 Rochford District 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.

1.6.1 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 Full Council at the meeting immediately following its action in the annual Review Report.

1.6.2 Projected Capital Investment Requirements

The Chief Finance Officer (Section 151) will prepare a three 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 definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

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

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax.

It will also consider affordability in the longer term beyond this three year period and assess the risks and rewards of significant investments to ensure the long-term financial sustainability of the authority.

The Council will also undertake an annual review of commercial, (debt for yield), investments with a view to divest, where appropriate, so as to avoid or minimise additional external borrowing.

The Council will use the definitions provided in the Prudential Code for borrowing (88), capital expenditure (89), capital financing requirement (90), commercial property (91), debt (92), financing costs (93), investments (95), net revenue stream (96), other long term liabilities (97), treasury management (98) and transferred debt (99).

1.7 Legal and Regulatory Risk Management

The risk that Rochford District Council 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 Rochford District Council suffers losses accordingly.

Rochford District 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 Rochford District Council, particularly with regard to duty of care and fees charged.

Rochford District 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 minimise the risk of these impacting adversely on Rochford District Council

1.7.1 References to Relevant Statutes and Regulations

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

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012

- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- *There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016*
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2021 no. 611 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2021

Guidance and codes of practice

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners' latest year 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 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities and Guidance Notes revised 2021
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority.)
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

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

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

England and Wales
Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

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

a. the scheme of delegation of treasury management activities which is contained in Treasury Management Strategy which states which officers carry out these duties
b. the document which sets which officers are the authorized 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, Moodys and Standard & Poors.

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

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

1.7.4 Monitoring Officer

The monitoring officer is the Assistant Director of Legal Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.7.5. Chief Financial Officer

The Chief Financial Officer is the Section 151 Officer; 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 she has concerns as to the financial prudence of its actions or its expected financial position.

1.8 Operational Risk, including fraud, error and corruption.

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.

Rochford District Council 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.

1.8.1 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 Chief Finance Officer (Section 151), or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

Procedures

- A full set of procedures for operating the Online Banking system, sending Chaps and dealing with cash flow forecasting are held by the Accountancy Team.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Accountancy Office.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with Rochford District Council.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to The Chief Finance Officer (Section 151) 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 Finance Officer (Section 151) for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- 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 authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.

- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- The Online Banking 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 Online Banking 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 the Code of Practice on Local Authority Accounting 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 Cash flow spreadsheet.
- The Cash flow spreadsheet system automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledger and the Cash flow spreadsheet.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund.

1.8.2 Emergency and contingency planning arrangements

Rochford District Council has a Disaster Recovery Plan.

The Council has a business continuity plan which ensures that the treasury management function can continue in the unlikely event that the Council Offices cannot be accessed. The Lloyds Current Account is accessed through the internet and is therefore accessible from any computer with web access.

1.8.3 Insurance cover details

Fidelity Insurance

The council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of Money, securities, goods, or other property belonging to the insured or in the insured's trust or custody for which the insured is legally responsible) by fraud or dishonesty of specified employees (listed below). This cover is limited to £5m for any one event with an excess of £10,000 for any one event.

Professional Indemnity Specified employees.

- SENIOR FINANCE BUSINESS PARTNER
- PAYMENTS AND INCOME OFFICER X 3
- FINANCE MANAGER
- SECTION 151

Professional Indemnity Insurance

The Council also has a 'Professional Indemnity' insurance policy with Travelers 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 Protector.

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 protect itself adequately.

Rochford District 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 principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.9.1 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 (which now forms part of the Annual Capital Treasury Management Strategy Statement).

TMP2 Performance Measurement

2.1 Evaluation and Review of Treasury Management Decisions

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

a. quarterly 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 full council
d. quarterly reports to committee / full council
e. comparative reviews
f. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic Reviews during the financial year

The treasury management team holds a treasury management review meeting with LINK every 6-8 months to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.
This will include:

a) Total debt (both on-and off balance sheet) including average rate and maturity profile
b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with LINK every 6-8 months to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

An Annual Capital Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt / investment portfolios. This report contains 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. comment on the level of internal borrowing and how it has changed during the year
e. assumptions made about interest rates
f. investment strategy for the year compared to actual strategy
g. explanations for variance between original borrowing and investment strategies and actual
h. debt rescheduling done in the year
i. actual borrowing and investment rates available through the year
j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives
k. the Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together will details of any remedial action take. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem.

l. 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.
m. compliance with Prudential and Treasury Indicators
n. other

In addition, half yearly reports will be submitted to the Council each year to provide updates on the above.

2.1.4 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
- CIPFA Benchmarking Club
- 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
- Debt portfolio compared to the debt liability benchmark

2.2.2 Investment.

The performance of investment earnings will be measured against the following benchmarks: -

a. in house investments

- Average daily SONIA
- Forward-looking SONIA Term Reference Rate (then choose the appropriate period - note, these are only available for 1,3 month periods)

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 4 year 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 review 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.

If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

2.3.3 Money-broking services

The Council may 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 full-time professional treasury management consultants and separate leasing advisory consultants.

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

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

TMP 3 DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

The Treasury section has a manual treasury management system in which all investment and loan transactions are recorded. Including:-

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager(s)
- Fund manager(s) valuation statements

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

b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained

c) 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

d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded

e) 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 to ensure that Its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.

b) Less detailed evaluation will also be carried out over a longer period of ….. years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term. *(CIPFA has not defined what longer term means but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10-year time frame and to focus on affordability in particular.)*

c) not borrow to invest primarily for financial return.

d) not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.

e) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council.

f) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

g) undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.

h) evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

i) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.

j) 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.

k) ensure that treasury management decisions are made in accordance with good professional practice.

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;

c) ensure that any long-term treasury investment is supported by a business case.

<u>TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES</u>

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

Please see the Annual Capital Investment Strategy.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for, and date received.

A separate file is maintained for confirmations that there is an exemption from having to opt up to professional status for a regulated investment, (e.g. to use a money market fund which will deal with retail clients).

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

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

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
UK Infrastructure Bank	●	●
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
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 Chief Finance Officer (Section 151) 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 and Prudential and Treasury Indicators.

4.7 Non-treasury management investments

Rochford District Council do not have any Non-Treasury management investments.

TMP 5 Organisations, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy
- budget consideration and approval.
- receiving the end of year report on treasury management.

(ii) Overview & Scrutiny Committee

- scrutiny of the three main treasury reports, before recommendation to Council or Executive.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(iv) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(v) Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.

- Recommending the appointment of external service providers.
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, ensuring it is prudent, sustainable and affordable.

5.2 Principles And Practices Concerning Segregation Of Duties

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

Chief Finance Officer
(Section 151)

I
Finance Manager
I
Senior Business Partner
I
Business Partners (Treasury Management Team)

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

5.4.1. The Chief Finance Officer (Section 151)

The Chief Finance Officer (Section 151) is the person charged with professional responsibility for the treasury management function and in this Council is the S151 officer. 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) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.

i) The Chief Finance Officer (Section 151) 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 Chief Finance Officer (Section 151) may delegate his power to borrow and invest to members of his staff. The Principle Accountant, the Senior Accountant or the Accountancy Officers must conduct all dealing transactions, or staff authorised by the Chief Finance Officer (Section 151) to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

k) The Chief Finance Officer (Section 151) 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 Chief Finance Officer (Section 151) 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 Chief Finance Officer (Section 151) 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 Business Partner and Treasury Management Team

The responsibilities of this team 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) supervising treasury management staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending opportunities for improved practices
h) opportunities for improved practices

5.4.3. Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the Chief Finance Officer (Section 151) reports regularly to the Full Council on treasury policy, activity and performance.

5.4.4. Monitoring Officer

The responsibilities of the post with this role will be: -

a) Ensuring compliance by the Chief Finance Officer (Section 151) 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 Chief Finance Officer (Section 151) 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

Home working available

5.6 Dealing Limits

The following posts are authorised to deal: -

AUTHORISATION TO PLACE DEAL

Corporate Manager (Finance and Accountancy)
Strategic Directors
Director of Resources

ONLINE AUTHORISATION TO SEND AND ACTION DEAL

Corporate Manager (Revenue and Benefits)
Senior Business Partner

CREATION OF DEALS FOR AUTHORISATION

Business Partner x 3
Payments and Income Supervisor

There are no dealing limits for individual posts

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 broker's 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

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For payments a transfer will be made through the Online Banking system to be completed by 5.00 pm on the same day.

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. Interest is given on credit balances at the average rate for internal balances

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. review of the organisation's approved clauses, treasury management policy statement and practices
   b. **treasury management strategy report** on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement *(Scottish authorities – delete the last two reports)*
   c. **capital strategy** to cover the following: -
      i. give a long-term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
      ii. an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
      iii. The authorities risk appetite and specific policies and arrangements for non-treasury investments
      iv. Schedule of non-treasury investments

b) Mid-year review *(or more frequent)*

c) Quarterly monitoring or review *(paragraphs 43 and 44 of the Prudential Code)*

d) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

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

2. 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.

3. 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
l) the MRP strategy

4. 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 Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Council's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments the Council will use
d) Whether they will be used by the in house team, external managers or both (if applicable)
e) 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
f) Which credit rating agencies the Council will use
g) How the Council will deal with changes in ratings, rating watches and rating outlooks
h) Limits of value and time for individual counterparties and groups
i) Country limits
j) Maximum value and maximum periods for which funds may be prudently invested
k) Levels of cash balances and investments over the same time period (as a minimum) as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
l) Interest rate outlook
m) Budget for investment earnings
n) A review of the holding of longer-term investments
o) Use of a cash fund manager (if applicable)
p) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The Chief Finance Officer (Section 151) 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 Chief Finance Officer (Section 151) shall submit the changes for approval to the full Council

6.6 Quarterly and Mid-year reviews

The Council will review its treasury management activities and strategy on a quarterly and six monthly *(or other)* basis. The mid-year review will go to Full Council. 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 and prudential indicators

The quarterly review will monitor the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring.

6.7 Annual Review Report on Treasury Management Activity

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

a) transactions executed and their revenue (current) effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations, approved policies and practices, the member approved treasury management strategy and on statutory/regulatory requirements
f) monitoring of treasury management indicators

6.8 Management Information Reports

Management information reports will be weekly for the Chief Finance Officer (Section 151).

These reports will contain the following information: -
a) a summary of transactions executed & their revenue
b) measurements of performance including effect on loan charges/investment income;
c) Degree of compliance with original strategy and explanation of variances.
d) Any non compliance with prudential limits or other treasury management limits.

6.9 Publication of Treasury Management Reports

All Treasury Reports are available to the Public through the Councils Committee Management Information System through the Councils Website.

<u>TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS</u>

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 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Chief Finance Officer (Section 151) 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 four years. This will bring together all the costs involved in running the function, together with associated income. The Chief Finance Officer (Section 151) 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.

7.3 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 General Ledger System
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Chief Finance Officer (Section 151) whilst a quarterly budget monitoring report goes to Full Council. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 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.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

8.2 Bank Statements Procedures

The Council receives postal 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 by Accountancy.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 30 days. Local Creditors are paid within 10 days.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Payments & Income Department is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on monthly basis to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

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

8.6 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.

TMP 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 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions.

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 2012, 2015 and 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 its staff aware of their responsibilities under POCA
e) Appoint a member of staff to whom they can report any suspicions. This person is Assistant Director of Legal 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 the Chief Finance Officer (Section 151) 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 BACS for making deposits or repaying loans.

TMP 10 Training and Qualifications

This organisation 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 responsible 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 responsible officer will ensure that board/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.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review 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 Senior Accountant to ensure that all staff under his / her authority receives the level of training appropriate to their duties. This will also apply to those staff that from time to time covers for absences from the treasury management team.

10.1 Details of Approved Training Courses

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

10.2 Records of Training Received by Treasury Staff

The Senior Business Partner will maintain records on all staff and the training they receive.

10.3 Experience and Approved Qualifications for Treasury Staff

The three Business Partners carrying out the daily monitoring have a number of years experience between them built from on the job training.

10.4 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.

10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Finance Officer (Section 151) is a member of CIPFA, there is a professional need for the Chief Finance Officer (Section 151) to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

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

10.6 Member training records

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

10.7 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.

<u>MP 11 Use of External Service Providers</u>

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, LINK Group , 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 an
- The credit ratings of that government support

11.1.1 Banking Services

Lloyds Bank,
Ground Floor
1 Legg Street
Chelmsford
CM1 1JS

The contract is from 1/08/2019 – 31/07/2024. With 2 x 12 month possible extensions. Cost of service is variable depending on schedule of tariffs and volumes in accordance with contract documentation.

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 Accountant every year 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 Chief Finance Officer (Section 151).

1. Tradition (CBD)
2. Sterling International Brokers
3. Prebon Tullet

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 Chief Finance Officer (Section 151) every year to check whether performance has met expectations.

a) Name of supplier of service is Link Group, Treasury solutions. Their address is 65 Gresham Street London EC2V 7NQ
b) Regulatory status: investment adviser authorised by the FSA
c) Contract commenced 01/02/21 and runs for 4 years 31/01/25
d) Cost of service is £8,500 in the first year, increasing by £250 per year.

The Council does not use leasing consultant services or External Fund Managers.

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

TMP 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
   Annual Investment Strategy
   Minimum Revenue provision policy statement
   Annual Treasury Review Report
   Treasury Management monitoring reports (e.g. half yearly, quarterly)
   Annual accounts and financial instruments disclosure notes
   Annual budget
   Three Year Capital Plan
   Minutes of Council / Cabinet / committee meetings