

**Lincolnshire County Council**

**TREASURY MANAGEMENT PRACTICES**

***Part 1:***

***Main Principles***

## **TREASURY MANAGEMENT PRACTICES**

The following Treasury Management Practices (TMPs) set out the manner in which Lincolnshire County Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

Each TMP defined in Part 1 of this document is supported by its own TMP Schedule which sets out the specific details of the systems, routines and records employed and maintained at Lincolnshire County Council in order to achieve compliance with each TMP objective. These TMP Schedules can be found in Part 2 of this Treasury Management Practices document.

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## TMP1 TREASURY RISK MANAGEMENT

1.1. The Director of Resources, or other responsible officer will:

- ~ design, implement and monitor all arrangements for the identification, management and control of treasury management risk,
- ~ report at least annually on the adequacy/suitability thereof, and
- ~ report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

### Types of Treasury Management Risk

1.2. Nine main treasury management risks have been identified and are defined below together with the associated objectives of Lincolnshire County Council in respect of each area of risk. Arrangements put in place by the Council that seek to ensure compliance with these objectives are set out in Part 2 of this document (TMP Schedules).

#### 1.2.1. Liquidity risk:

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

**Objective:** The 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 that are necessary for the achievement of its business/service objectives."

#### 1.2.2. Interest rate risk:

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

**Objective:** "The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirement and management information arrangements*.

These objectives will be achieved by the prudent use of 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.

### 1.2.3. Exchange rate risk :

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

**Objective: This Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.**

This objective will be achieved by the prudent use of 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 exchange rates.

### 1.2.4. Inflation risk :

*“The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.”*

**Objective: To control the effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, as an integral part of the strategy for managing overall exposure to inflation.**

This objective will be achieved by the prudent use of 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 inflation.

### 1.2.5. Credit and counterparty risk

*“The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party’s diminished creditworthiness, and the resulting detrimental effect on the organisation’s capital or revenue resources.”*

**Objective: The security of the principal sums invested by the Council.**

This objective will be achieved by ensuring that the Council’s investment counterparty list and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and by limiting its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, methods and techniques* and listed in Part 2 of this document (TMP Schedule).

### 1.2.6. Refinancing risk :

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

**Objective:** To insure that 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 favorable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

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

### 1.2.7. Legal and regulatory risk

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

**Objective:** To ensure that all treasury management activities comply with statutory powers and regulatory requirements and to 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 *TMP1.2.5 Credit and counterparty risk management*, the Council will ensure that there is evidence of counterparties' powers, authority and compliance in respect of any transactions agreed with the organisation, particularly with regard to duty of care and fees charged.

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

### 1.2.8. Fraud, error and corruption, and contingency risk

*“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 treasury management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.”*

**Objective:** To identify the circumstances which may expose the Council to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and to design and implement suitable systems and procedures, and maintain effective contingency management arrangements, to counter such risks.

### 1.2.9. Market risk

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

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

## TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

- 2.1. Lincolnshire County Council actively works to promote best value in its treasury management activities. Accordingly, the treasury management function will be the subject of regular reviews to identify scope for improvement. The performance of the treasury management function will be measured using the criteria set out in Part 2 of this document (TMP Schedule).

## TMP3 DECISION-MAKING AND ANALYSIS

- 3.1. Lincolnshire County Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in Part 2 of this document (TMP Schedule).

## **TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

4.1. Lincolnshire County Council will undertake its treasury management activities by employing only those instruments, methods and techniques as detailed in Part 2 of this document (TMP Schedule), and within the limits and parameters defined in *TMP1 Risk management*.

## **TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

5.1. Lincolnshire County Council will ensure, for the purposes of effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that its treasury management activities are properly structured and managed in a clear and open fashion, and that a rigorous discipline of segregation of duties is enforced.

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

5.3. If or when this organisation intends to depart from these principles, as a result of lack of resources or other circumstances, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

5.4. The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in Part 2 of this document (TMP Schedule).

5.5. The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in Part 2 of this document (TMP Schedule).

5.6. Delegation to the responsible officer and all other designated officers, in respect of treasury management are set out in Part 2 of this document (TMP Schedule). The responsible officer will fulfill all such responsibilities in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on treasury management.

## **TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

6.1. Regular reports will be prepared for consideration by the Executive Councillor for Resources on

- the implementation of the Authority's treasury management policies;
- the effects of decisions taken and the transactions executed in pursuit of those policies;
- the implications of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and
- on the performance of the treasury management function.

6.2. As a minimum, the Executive Councillor for Resources will receive for approval:

- an annual treasury strategy and plan to be pursued in the coming year; and
- an annual investment strategy setting out the Authority's policies for investing surplus cash.
- A mid-term and an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

6.3. The Value for Money Scrutiny Committee will receive for consideration prior to the Executive Councillor decision:

- a mid-term report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the first six months of the year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.
- the annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

6.4. The Executive and Full Council will receive, along with the Annual Budget Report, the Prudential Indicators for the following three financial years in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities.

6.5. The present arrangements and the form of these reports are detailed in Part 2 of this document (TMP Schedule).



## **TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 7.1. The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management*, *TMP2 Best value and performance measurement*, and *TMP4 Approved instruments, methods and techniques*. The form that this organisation's budget will take is set out in Part 2 of this document (TMP Schedule). The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.
- 7.2. This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this organisation's accounts is set out in Part 2 of this document (TMP Schedule).
- 7.3. This organisation will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in Part 2 of this document (TMP Schedule).

## **TMP8 CASH AND CASH FLOW MANAGEMENT**

- 8.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes, (this includes the monies of the Pension Fund). Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1(1.2.1) Liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in Part 2 of this document (TMP Schedule).

## **TMP9 MONEY LAUNDERING**

9.1. To be alert to the possibility that Lincolnshire County Council may become the subject of an attempt to involve it in a transaction involving the laundering of money, procedures for verifying and recording the identity of counterparties and reporting suspicions will be maintained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in Part 2 of this document (TMP Schedule).

## **TMP10 STAFF TRAINING AND QUALIFICATIONS**

10.1. Lincolnshire County Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. Consequently the Authority seeks to appoint individuals who are both capable and suitably experienced and also 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. The present arrangements are detailed in Part 2 of this document (TMP Schedule).

## **TMP11 USE OF EXTERNAL SERVICE PROVIDERS**

11.1. Lincolnshire County Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that will have first been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of appointment and the methods by which value will be assessed are properly agreed and documented, and subjected to regular review.

11.2. Where feasible and necessary, a spread of service providers will be used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, Contract and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in Part 2 of this document (TMP Schedule).

**TMP12 CORPORATE GOVERNANCE**

- 12.1. Lincolnshire County Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 12.2. The Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in Part 2 of this document (TMP Schedule), are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.