

**Lincolnshire County Council**

**TREASURY MANAGEMENT PRACTICES**

***Part 2:***

***Schedules***

## **TREASURY MANAGEMENT PRACTICES - SCHEDULES**

This section contains the Schedules that set out the details of how the Treasury Management Practices (TMPs), as described in Part 1, are put into effect by Lincolnshire County Council.

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### **1. TMP1 TREASURY RISK MANAGEMENT**

## **1.1. Liquidity Risk:**

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardize the ability of the Council to carry out its functions or disrupt those functions being carried out in the most effective manner. The Council will therefore have sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. It will also seek to ensure that its cash flow forecasting gives as accurate a picture as possible of the ebbs and flows in income and expenditure and the resulting residual daily cash balances.

### **1.1.1. Approved Minimum Cash Balance**

Daily money market activity (short term lending or borrowing) is undertaken, solely within the Treasury & Capital Section, at a level to ensure that the forecast residual consolidated cash balance held in the Council's current accounts is minimised at the close of each working day, in order to minimise the amount of bank overdraft interest payable and maximise the amount of short term investment available.

This procedure relies on the reliability & accuracy of the cash & cash flow forecasting/monitoring system in place, as detailed in TMP 8 Cash & Cash flow Management.

Any deviations from the forecast residual cash balance, when the balance is in excess of +/- £100,000 are reported monthly to the Financial Advisor (Treasury & Capital), with reasons. For details refer to TMP6 Reporting Requirements and Management Information Arrangements – Section 6.5 Management Information Reports.

### **1.1.2. Bank Overdraft Arrangements**

A £3 million overdraft facility is provided by the Council's bankers, HSBC Bank plc at an overdraft rate of 1% over the base rate as agreed within the banking contract. The overdraft is derived on a consolidated group basis that includes the total balances of all the Council's accounts. This facility is used on occasions where daily cash balances vary from those forecast or when temporary money market borrowing is difficult to obtain.

### **1.1.3. Call Account Facilities**

As part of its treasury operations the Council has access to several call accounts and money market funds to deposit short-term investments up to a total of £15 million/£20 million with each counterparty. Funds from these accounts can be drawn upon if required, for receipt on a same day value basis.

#### **1.1.4. Short Term Borrowing Facilities**

Temporary borrowing is available from money market institutions, arranged directly or via money market brokers.

#### **1.2. Interest Rate Risk:**

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimize this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for investment and debt portfolios.

##### **1.2.1. Approved Interest Rate Exposure Limits**

In accordance with the CIPFA Code of Practice on Treasury Management, the Council's policy on interest rate exposure/prospects shall be detailed in the Annual Treasury Management Strategy Statement submitted to the Executive Councillor For Resources prior to the commencement of each financial year. For details please refer to TMP6 Reporting Requirements Section 6.1.

Interest rate forecasts are formulated based upon the current outlook for the UK Economy from independent economic sources and on the advice of the Council's treasury management advisor, currently Sector Ltd.

##### **1.2.2. Managing Changes To Interest Rate Levels**

Strategies for both long term borrowing and temporary investments are detailed in the Annual Treasury Management Strategy Statement based upon the current interest rate views held at the time.

Interest rates and market forecasts are continually monitored throughout the year and the strategies formulated allow flexibility for the appropriate investment/borrowing actions to be taken in response to any sharp rise or fall in long & short term interest rates occurring throughout the year.

The financial effect of any significant change in interest rates from that forecasted will be reported to the Head of Service (Treasury & Financial Strategy).

##### **1.2.3. Minimum / Maximum Proportions of Fixed & Variable Rate Debt/Interest**

In accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, which replaced the current regulations effective from 1 April 2004, the Council will set upper limits on its fixed interest rate and variable rate interest exposures for 3 years forward on a rolling basis.

Current limits are included in the annual Treasury Management Strategy Statement.

#### **1.2.4. Policy on Use of Borrowing/Approved Investment Instruments For Interest Rate Management**

- a) Callable Deposits - *Fixed Investments for up to 5 years, which can be replaced by borrower at their option at certain time periods.*

The Director of Resources has given his delegated approval for the investment in callable deposits as and when required up to a maximum limit of 1 year at present.

- b) Forward Investment Dealing - *Fixing the period, rate and amount of an investment now for advance at a future date.*

Consideration will be given to dealing from forward periods dependant on market conditions. Delegated approval from the Director of Resources is required for this type of investment at present.

- c) LOBO's – *Long term borrowing with a lenders option/borrowers option to repay.*

Borrowing using LOBO's would represent a change in borrowing strategy, which would have to be approved by the Executive Councillor For Resources. No use of LOBO's has been made at present with all current long term borrowing being taken from the Public Works Loan Board on a Maturity basis.

#### **1.3. Exchange Rate Risk:**

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

##### **1.3.1. Policy on Managing Changes In Exchange Rate Levels**

The Council may incur occasional exposure to exchange rate risk, mainly arising from the receipt of income or the incurring of expenditure in a currency other than sterling.

At the moment, occurrences of making payments or receiving income in currency other than sterling is minimal and therefore the Council does not adopt any hedging strategies to control / add certainty to the sterling value of these transactions.

This policy will be reviewed if it is likely that receipt or payment of non-sterling transactions will increase.

#### **1.4. Inflation Risk:**

Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has minimal exposure to inflation risk as inflation has not been at high levels for the last decade and is not currently expected to return to such levels.

##### **1.4.1. Inflation Exposure Limits and Management of Changes in Inflation Level For Cash Investments / Debt**

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with the other risks mentioned within this Section.

Inflation current & projected will form part of the debt and investment decision making criteria within the Annual Treasury Management Strategy for borrowing and investments.

#### **1.5. Credit and Counterparty Risk:**

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Council recognises its prime responsibility to always put first the preservation of the principal of the sums which it invests. Consequently, it will optimise returns commensurate with the management of the associated risk.

##### **1.5.1. Criteria To Be Used For Creating/Managing Approved Counterparty List / Limits**

The Director of Resources, under his delegated powers, is responsible for formulating a suitable criteria for assessing and monitoring the credit risk of investment counterparties and for constructing an Approved Lending List

comprising maturity, sector, group and specific counterparty limits. Day-to-day responsibility for this area is delegated to the Treasury Manager, via the Assistant Director (Finance & Asset Management) and Head of Services (Treasury & Financial Strategy).

The Council uses credit rating criteria in order to select creditworthy counterparties for placing investments with, **however in addition to credit ratings, other financial or economic information from varying sources is also taken into account when determining whether a counterparty remains on the Council's lending list.**

The Council has also introduced a minimum country sovereign rating as an added criteria of assessing credit risk.

Credit rating information used is primarily from the credit rating agency, Fitch IBCA with also ratings from Moody's and Standard & Poors also taken into account. Credit rating information is supplied to the Council on a regular basis via Sector Ltd, the Council's current treasury management advisors.

Sector Ltd provide advice to the Council on the credit worthiness of investment counterparties in the form of 'matrices' that suggest acceptable maturity limits for given minimum levels of credit rating. The Council follows this advice and uses the matrices in establishing its Lending List.

#### **Investments Up to 365 Days (Specified Investments): -**

The minimum level of credit ratings deemed acceptable by the Council for counterparties to which the Council will invest up to 365 days (known as Specified Investments) are detailed in the following table.

<b>Body or Investment Scheme</b>	<b>Minimum Acceptable Credit Rating (Fitch Ratings Ltd)</b>
Bank or Building Society	Short Term: F1+
	Long Term: AA-
	Individual: C
	Individual (Nationalised):** F
	Support: 3
Country Sovereign Rating	Sovereign AAA
Money Market Funds	Long Term: AAA

Sector Ltd matrices followed by the Council which determine the maturity limit of investments to counterparties (365 days maximum) are shown below: -

**Fitch Ratings:**  
**Short Term F1+**

**Short Term F1+**

**Long Term AAA, AA+, AA**

Individual	Support			
	1	2	3	4
A				
A/B				
B				
B/C				
C				

**Long Term AA-**

Individual	Support			
	1	2	3	4
A				
A/B				
B				
B/C				
C				

Based on the above matrices criteria the Council has established maturity limits for each counterparty as follows:

Maturity Limit	364 Day	6 Months	3 Months	1 Month

Individual limits are set by the Long Term Rating of the Counterparty as follows:

Long Term Rating	Maximum Limit £
AAA/AA+/AA	£20m
AA-	£15m

In addition to the above selection criteria, the following counterparties, which are not credit rated, are included on the Council's Lending List as they are deemed to be quasi government establishments and therefore represent no credit risk to the Council. This view is endorsed by Sector.

	Individual Limit	Maturity Limit
Local Authorities	£20 Million	364 Day
Debt Management Office Deposit Facility	£50 Million	6 Months

**All other Counterparties must be credit rated in their own right and those credit ratings must fall within the above credit rating criteria before they will be accepted on the Council's Approved Lending List.**

Other Limits also apply: -

- ~ The maximum level of investment with any one corporate group of counterparties will be maximum monetary and duration limit of any one member of that group.



- ~ A Parent/Subsidiary combined limit also applies where appropriate, at a suitable level according to the individual limits of the counterparties concerned. The subsidiary must be credit rated in its own right to be placed on the Council's Lending List.
- ~ The maximum percentage of the portfolio, which may be invested in the Building Society sector, will be 20 %.
- ~ Money Market Funds, credit rated 'AAA', are included on the Lending List with a maximum limit of £20 million per fund with a total money market group limit of £50 million.
- ~ A minimum sovereign rating of 'AAA' has been included for the Countries of all Counterparties on the Lending List.

#### Credit Default Swap (CDS) Overlay

In addition to focusing on Credit Ratings of institutions when determining the Council's credit worthiness policy, a CDS overlay has also been incorporated into the suggested credit matrices to further determine duration limits as suggested by Sector.

A CDS is effectively a contract between two counterparties to 'insure' against default. The higher the CDS price of an institution, the higher the supposed risk of default.

Sector has employed a benchmark system which compares the CDS spread of an institution against a predetermined benchmark rate (iTraxx Senior Financials Index) to produce a CDS status of 'In Range (below benchmark)', 'Monitoring (within 50 bps of benchmark)' or 'Out of Range (Over 50bps from benchmark)'.

The CDS status given will affect the suggested duration matrix as follows:

Suggested Duration From Credit Ratings		CDS Status		Suggested Adjusted Duration
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No Colour	+	In Range	=	No Colour
No Colour	+	Monitoring	=	No Colour
No Colour	+	Out Of Range	=	No Colour

1 Month	+	In Range	=	1 Month
1 Month	+	Monitoring	=	No Colour
1 Month	+	Out Of Range	=	No Colour

3 Months	+	In Range	=	3 Months
3 Months	+	Monitoring	=	1 Month

3 Months	+	Out Of Range	=	No Colour
6 Months	+	In Range	=	6 Months
6 Months	+	Monitoring	=	3 Months
6 Months	+	Out Of Range	=	No Colour
364 Days	+	In Range	=	364 Days
364 Days	+	Monitoring	=	6 Months
364 Days	+	Out Of Range	=	No Colour

This CDS overlay will not effect a formal change to the Approved Lending List, but is followed 'in-house' by the Treasury Manager, when determining the daily investment strategy.

### Investments Over 364 Days

Effective from 1 April 2004, governed by Section 15 (1) of the Local Government Act 2003 and ODPM guidance on Local Government Investments, the Council is now able to make investments for periods longer than 364 days.

The Council has detailed its policy on what it regards as acceptable investments up to and over 365 days within its' Annual Investment Strategy Statement and classified these as Specified and Non-Specified Investments. (For details refer to TMP 6 – Reporting Requirements & Management Information Arrangements – Section 6.2).

Within the Annual Investment Strategy, the Council, at present, has chosen not to invest in investments over 365 days.

In line with the Prudential Code Indicator, the maximum amount of investment that can be held in investments over 365 days at any one time is **£40 million**. This limit reflects a prudent proportion of the Council's estimated level of core cash balances available to invest for longer periods.

The Executive Councillor for Resources will be informed on any occasion when investments are lent for over 365 days.

### **1.5.2. Approved Methodology For Changing Limits and Adding/Removing Counterparties**

Credit ratings for individual counterparties can change at any time. The Director of Resources is responsible for applying the stated credit criteria policy as outlined in 1.5.1 above when selecting approved counterparties, and also to ensure counterparties are deleted from the Approved Lending List or their lending limits / maturity limits adjusted, when there is a change in the

credit rating of individual counterparties or in banking structures, e.g. mergers or takeovers etc.

The Director of Resources delegates this responsibility on a daily basis to the Treasury Manager.

Any additions, changes or deletions required to the Approved Lending List are outlined in a report by the Treasury Manager to the Assistant Director (Finance & Asset Management) and the Head of Service (Treasury & Financial Strategy). Approval of both these officers is required before any alterations are accepted.

Note: The Treasury Manager will suspend investment activity with any counterparty on the list that has been recommended for deletion but for which approval by the Assistant Director (Finance & Asset Management) and the Head of Service (Treasury & Financial Strategy) has yet to be received.

Recommended changes to the Annual Investment Strategy, which outlines the Council's policy on acceptable investments, will be referred to the Director of Resources for approval and subsequently a recommendation for change to the Annual Investment Strategy will be sought from the Executive Councillor For Resources via the Resources Policy Development Group.

### **1.5.3. Full Listing of Counterparties and Limits (The Approved Lending List)**

The Council's current Approved Lending List can be found in Excel under the following path: -

**G:\Inv&Treas Man\TREASURY BACKUP\Lendlist.xls**

## **1.6. Refinancing Risk:**

Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets.

### **1.6.1. Debt Maturity Profile – Policy and Practice**

The Council's borrowing policy, effective from 1 December 2006, is to take Maturity borrowing, whereby principal is repaid at the end of the loan period. This enables the Council to determine the length of borrowing driven by the Council's view on the best short term and long term interest rates available

within each economic cycle, also securing an even maturity profile of debt, thereby limiting any refinancing exposure to the Council.

The overall level of outstanding debt is managed by a voluntary repayment of debt mechanism to meet a given debt target level, whilst at the same time any maturing debt is replaced at lengths in accordance with the borrowing strategy in place.

To date all borrowing has been taken from the Public Works Loan Board (PWLB) on this basis.

In accordance with the CIPFA Prudential Code, effective from 1 April 2004, the Council has set upper and lower limits for the maturity structure of its long term borrowings which ensure an even maturity profile is adhered to.

These limits are included in the Annual Treasury Management Strategy Statement. For details refer to TMP 6. Reporting Requirements - Section 6.1.

### **1.6.2. Debt Restructuring**

Debt rescheduling will take place when the difference between the refinancing rate and the redemption rate of a loan is the most advantageous in achieving minimum premium or maximum discount. This situation is continually monitored in order to take advantage of any perceived anomalies in the yield curve. The objective for any rescheduling to take place will include: -

- Achieving a net premium and discount position.
- The generation of cash savings in interest paid at minimum risk
- To reduce the average interest rate on the long term debt portfolio.
- To amend the maturity profile and or interest volatility of the debt portfolio.

All rescheduling will be actioned following prior approval from the Assistant Director (Finance & Asset Management) or the Head of Service (Treasury and Financial Strategy). All rescheduling taken place will be reported to the Director of Resources and the Executive Councillor for Resources and reported in the Treasury Management Annual Report submitted annually to the Value For Money Scrutiny Committee. For details please refer to TMP6 Reporting Requirements – Section 6.4.

### **1.6.3. Projected Capital Investment Requirements**

The Treasury and Capital Section will prepare a three year plan for capital expenditure for the Council. This will be in accordance with the Government's capital consent guidelines. The capital plan will be used to prepare a three year revenue budget for capital financing costs (principal repayments, interest and expenses) that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

In accordance with the Prudential Code for Capital Finance, effective from 2004, the Council will determine its capital financing plans in a prudent,

affordable and sustainable manner. Affordability of such plans will be demonstrated in a set of Prudential Indicators determined over the three year capital plans. The level of capital expenditure will therefore be determined with regard to the new prudential system of Local Government Capital Finance.

#### **1.6.4. Limits on Revenue Consequences of Borrowing and Debt**

The level of capital expenditure and decisions on financing the capital expenditure are set so as to keep the revenue costs of capital expenditure to an affordable level within the projected income of the Council for the foreseeable future.

As such the Council's Financial Framework, amended as a result of the introduction of the Prudential Code, limits the repayment of external debt (principal and interest) to 5 % of income from general grants and council tax. This has been included as a voluntary Prudential Indicator.

### **1.7. Legal and Regulatory Risk**

Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

#### **1.7.1. Relevant Statutes and Regulations**

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are: -

- CIPFA's Treasury Management Code of Practice and Guidance Notes 2006,2004,2001and 1996.
- CIPFA's Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996.
- CIPFA Standard of Professional Practice on Treasury Management 1995.
- Local Government Act 2003.
- CIPFA's Prudential Code for Capital Finance in Local Authorities 2004 and fully revised guidance notes for practitioners 2007.
- ODPM Guidance on Local Government Investments 2004.
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct.
- SORP – Code of Practice on Local Authority Accounting in the UK: A statement of recommended practice.
- PWLB annual circular on Lending Policy.
- LAAP Bulletin 55 CIPFA's Guidance on Local Authority Reserves and Balances.
- Requirement to set a balanced budget – LGFA 1992 section 43 precepting authorities.
- LGFA 1988 Section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.

- 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

The Council's Constitution, in particular the: -

- Council's Contract Regulations
- Council's Financial Regulations
- Council's Scheme of Delegated Functions

(Copies of the above regulations are held within the CTO Investment & Treasury Management Section. The Constitution can be accessed from the Authority's Intranet - George).

#### **1.7.2. Evidencing Lincolnshire County Council's Powers / Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation as follows:

Investing: Local Government Act 2003, section 12  
Borrowing: Local Government Act 2003, section 1

The Council will prepare, adopt and maintain as the corner stones for effective treasury management: -

- A Treasury Management Policy Statement (TMPS), stating the overriding principals and objectives of its treasury management activities and, as an integral part of that statement.
- Treasury Management Practices (TMP's), setting out the manner in which the Council will achieve those principals and objectives, and prescribing how it will manage and control those activities.
- The Authority shall supply copies of its Annual Accounts, Treasury Management Policy Statement, its Treasury Management Practices, its' Constitution, Scheme of Delegation and other such evidence as may be required by counterparties as requested.

### **1.7.3. Information Required From Counterparties Concerning Their Powers/Authorities**

Lending shall only be made to counterparties on the Authority's Approved Lending List. This list has been compiled from advice from the Council's treasury advisors, Sector Ltd, based on credit ratings supplied by Fitch IBCA, Moody's Investor Services and Standard & Poor's and Credit Default Swap prices where available.

Prior to lending to a counterparty for the first time, contact details and standard settlement instructions of the counterparty are obtained by the Council on the Counterparty's official letter headed paper.

### **1.7.4. Management of Political Risks**

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

### **1.7.5. Monitoring Officer**

The Monitoring Officer is the Head of Legal Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.7.6. Chief Financial Officer**

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

## **1.8. Fraud, Error and Corruption, and Contingency Risk Management RE Treasury Management Activities**

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. 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 minimizes 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. Not allow staff 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. Maintain records 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. Systems and Procedures To Be Followed**

#### Authority

- The Director of Resources has delegated responsibility for making all loans and investments, on behalf of the Council, as set out in the Scheme of Delegation To Officers within the Council's Financial Regulations within the Constitution. The Director of Resources passes day-to-day authority for making loans and investments to certain officers within the Treasury and Financial Strategy Section (See TMP5 –Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements – Section 5.4.1)
- Also defined within the Council's Financial Regulations, Resources Directorate Scheme of Delegation, are posts within the Resources Directorate that have authorised bank signatory status. Only officers who hold these posts are authorised to release payments for the Council using the electronic banking software, or otherwise, or to instruct the bank on other banking related matters. The list of authorised bank signatories for the Council (including specimen signatures) is maintained within the Treasury and Capital Section and forms part of the banking mandate with the current provider of the Council's banking services, HSBC Bank PLC.
- No member of the treasury management team is an authorised signatory.

#### Occurrence

- A detailed register of loans and investments is maintained on the Logotech system, which is independently checked to the Council's ledger balances on SAP for loans and investments on a quarterly basis and at the financial year end. (The Logotech system is a bought-in Treasury Management database/cash flow package, purchased by the Council in 2003)
- To support the decision to lend or borrow, adequate and effective cash flow forecasting records are maintained on the Logotech system and spreadsheets, combined with the daily banking information from the Council's electronic banking software, HSBCnet.
- Written confirmations of all borrowing/investment deals are received/sought from the counterparty and checked against the deal records. Any discrepancies are immediately referred to the counterparty/broker for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Any discrepancies are immediately referred to the broker for resolution.



- All confirmations of borrowing/investments together with a Deal Ticket produced from the Logotech system detailing all the loan details are retained on loan files. (For details see TMP5 –Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements – Section 5.11).

### Completeness

- ~ The borrowing/investment register on Logotech is updated daily to record all lending and borrowing undertaken, including start and maturity dates, amount, interest rate, counterparty, and broker.

### Measurement

- The calculation of repayment or receipt of principal and interest, notified by the lender or borrower, is checked for accuracy against the amount calculated by the Logotech system.
- The Logotech system automatically calculates periodic interest/principal payments to the PWLB. This is used to check the amount paid to the PWLB by direct debit.
- The Logotech system automatically calculates the average rate of interest paid/earned on all loans and investments, on a daily, weekly, monthly or annual basis. Daily average rates are recorded and used to produce treasury performance information.

### Timeliness

- The Logotech system prompts the Treasury Manager that money borrowed or lent is due to be repaid/received (Auto Diary).
- Borrowing/Investments can be rolled over at the time of maturity if appropriate. Where this occurs it will be fully documents on deal records and the General Ledger SAP will be updated accordingly with both the receipt/replacing of the transaction.

### Regularity

- All lending is only made to institutions on the Approved Lending List.

- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution (For details see Section 1.5.1). These limits are recorded on the Logotech System for each institution, and therefore any occurrence of breaches of limits is highlighted by the system automatically.
- All Brokers have a list of named officials authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loans management and accountancy. (For details see Section 1.8.3).
- Totals of borrowing and lending from the Logotech system are reconciled quarterly and at the financial year end with the ledger balance sheet codes on SAP by the Treasury Officer.
- There is a separation of duties in the Investment and Treasury Management Section between the repayment of a loan and the checking and authorisation of the loan.
- The Treasury Officer is responsible for coding loan and investment transactions on the general ledger in SAP by journal directly between the appropriate balance sheet and cash codes, on the same day of the transaction.
- Bank reconciliation's are carried out on a daily real time basis from electronic bank statements to the financial ledger within SAP. (For details refer to TMP8 Cash Flow Management- Section 8.4).
- All employees responsible for coding treasury management transactions have an up to date code list.

### Security

- The Logotech system can only be accessed by password and provides a full audit trail of activity.
- The HSBCnet system can only be accessed by security device password and provides a full audit trial of activity.
- To release a CHAPS payment using the HSBCnet system, three different officers with different access security levels are involved in the process, providing input, verify and authorize/release roles. (For details please refer to TMP5 Dealing Arrangements – Section 5.10).

### Substantiation

- ~ Logotech balances (principal and interest) are proved to the balance sheet/revenue ledger codes in SAP at the end of each quarter and at the financial year-end. Working papers are retained for audit inspection.

## **1.8.2. Emergency & Contingency Planning Arrangements**

Alternative arrangements exist for the following eventualities as outlined: -

### Logotech Treasury System Failure

- The Logotech system software is network based, therefore can be accessed on several alternative computers within the Treasury Management Section, if an individual computer fails.
- The Logotech software can be re-installed if the software becomes corrupted.
- Daily back up of the Logotech data is saved to pendrive by the Treasury Officer, and the latest pendrive is kept in a fire proof safe. The key to this safe is held by both the Treasury Officer the Investment Finance Officer.
- The network is backed up on the server each day by the infrastructure team in IT. These back ups can be utilised if necessary.
- Data is also saved to a **contingency planning pendrive** each day which is taken off site each night by the Treasury Officer – see 'Inability To Gain Access' section below.

### HSBCnet – Electronic Banking System Failure

- Daily bank balances can be obtained over the telephone from the Bank by the Treasury Officer or other Investment staff. A copy of what information is required from the bank is held in '**HSBC Daily Banking Totals.pdf**' in the Treasury Backup folder.
- CHAPS payments can be actioned by the Bank on instruction by the Treasury Section via letter or fax, signed by an Authorised Bank Signatory. An HSBCnet Chaps form to be sent with the letter can be obtained from '**HSBC.net Payment Form.pdf**' in the Treasury Backup folder. A deadline for CHAPs requests to the bank is 1pm.

### Network Failure

In the event of a network failure, information used to calculate daily bank figures and continue with investment/borrowing operations need to be accessed in alternative ways. This is achieved in the following ways:

- Key spreadsheets used as part of daily forecasting routines are kept on the hard drive of the computer of the Treasury Manager and Treasury Officer. Files include:
  - List of account information required from HSBC
  - Call Account Withdrawal Letters
  - Payment Form Template.
  - Newfigs.xls
  - Lending List
  - Key Treasury Contacts\*
  - Blank Dealing Sheet
- \*The Treasury Contacts file includes all contact numbers for Counterparties, Bank Signatories, TM Advisors, Bank, PWLB, Logotech, Brokers and other Investment Staff members. Given the sensitive nature of this information this file is passworded for access.
- A copy of the Treasury Backup Folder in Excel containing all the key spreadsheets detailed above plus PILIMITS200910.xls, Cashsumm.xls, ChequesBacs.xls and Outstanding.xls is copied to a pendrive each night and taken home by the Treasury Manager. This pendrive is password protected for access.
- Hard copies of the latest information required for daily dealing are also kept in the fireproof safe each night, these include:
  - Newfigs.xls, Outstanding.xls, Lendlist.xls
  - Copies of latest bank totals, prev day and current day reports
  - Copy of latest Logotech 2 weekly view and outstanding limits reports.
  - Copy of Sector's latest Weekly Credit List.
  - Hard Copy of Treasury Contact information

### Inability to Gain Access To Office – Home Working Arrangements

Working from home site procedures have been developed in order to cover any situations where access to the office is not available to one or all staff. These procedures include:

- The Treasury Team plus the Investment Manager all have access to the Staff Portal, CITRIX, to access e-mails, microsoft files and SAP.
- Both the Treasury Manager and Treasury Officer hold work mobile phones to be used when offsite.

- The Treasury direct line telephone has an answer machine facility whereby messages can be picked up remotely. This answer machine will direct callers to the Treasury mobiles as well as offering the facility to leave a message.
- HSBCnet is internet based and therefore can be accessed from any computer with internet access using the personal red security devices.
- Logotech is not available through CITRIX at present however the database is backed up to a Contingency Planning pendrive each night which is taken home by the Treasury Officer. The database can then be accessed and maintained from this stand alone pendrive at the home of the Treasury Officer for a temporary period if necessary.
- Alternative backup procedures to faxed instructions have been established with counterparties for the subscription/redemption of investments held in all Call Accounts and Money Market Funds
- Daily payment proposals are to be sent electronically by Mouchel for authorisation by those with the authority to do so.

Treasury operations can therefore be conducted using a combination of email, scanning, telephone instructions and electronic filling by officers who are at home or offsite.

#### Staff Absence Cover

- For details see TMP5 –Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements – Section 5.5)

#### **1.8.3. Insurance Cover**

- The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by any fraud or dishonesty of any employee. The excess on this Policy is £10,000 per claim. The maximum indemnity cover on this policy is £20m per claim.
- The Council also has a 'Professional Indemnity' insurance policy with Travelers Insurance Company Ltd which covers loss to the Council from the actions of it's officers who are negligent or have acted without due care.

This cover is limited to £5 million for any one event, and has an excess of £75,000 for each event.

#### **1.8.4. Risk Management Matrix**

### **1.9. Market Risk (Market Value of Investments)**

Market risk is the risk of fluctuations in the principal value of the Council's investments.

#### **1.9.1. Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CD's etc)**

The Council views capital preservation of investments as a primary key requirement and therefore the Council's policy, at this time, is not to invest in instruments which are subject to fluctuation in capital movements (Gilts and CD's) or to allow any external cash managers, if appointed, to use these instruments on behalf of the Council either.

## 2. TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

### 2.1. Methodology To Be Applied For Evaluating The Impact of Treasury Management Decisions

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

#### 2.1.1. Best Value Performance Plan

The Council maintains a Best Value Performance Plan (BVPP) that is reported quarterly to the Executive. One of the Resources Directorate Indicators in this BVPP relates to treasury management as follows:

<u>Code</u>	<u>Indicator</u>
FR6	To match the 7 Day LIBID investment return on the daily cash balances of the Council and its Pension Fund.

#### 2.1.2. Periodic Reviews During the Financial Year

A mid-term report is submitted to the Value For Money Scrutiny Committee each November. This report reviews the performance of the debt/investment portfolios and reviews actual activity against the Treasury Management Strategy Statement and cash flow forecasts for the first six months of the year. TPM6 Reporting Requirements Section 6.4.

#### 2.1.3. Reviews With Treasury Management Consultants – Sector Ltd

The treasury management team holds reviews with the treasury management consultants, Sector Ltd, every 6 months to review the performance of the investment and debt portfolios.

#### 2.1.4. Annual Review After the End of the Financial Year

An Annual Treasury Report is submitted to the Value For Money Scrutiny Committee and Executive Councillor For Resources each year after the close of the financial year which reviews the performance of the debt/investment portfolios. See TPM6 Reporting Requirements Section 6.4.

#### 2.1.5. CIPFA Benchmarking Club

The Council is a member of the CIPFA benchmarking club and participate in their information gathering exercises each financial year. This enables the Council's treasury management performance to be compared with a number of other Councils with similar kinds of debt and investment and also to compare treasury management systems and operations with other Councils for best practice.

## **2.2. Methods For Testing Best Value in Treasury Management**

### **2.2.1. Frequency and Processes For Tendering**

Tendering for treasury management contracts is usually required every three years, but due to the specific nature of the services, contracts may be renegotiated, subject to approval from the Director of Resources or Executive Councillor for Resources. The process for advertising and awarding contracts will be in line with the Council's Contract Regulations and European OJEC Regulations.

### **2.2.2. Banking Services**

Banking services will be retendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends. If the contract is renegotiated, then the Council will employ the services of a Banking Service Comparison Company, in order to ascertain if current price levels remain best value compared to the general banking market.

### **2.2.3. Money Broking Services**

The Council may use money broking services in order to make investments or to borrow and will establish charges for all services prior to using them. It is noted that money brokerage is payable on borrowing deals only, not on investment deals.

The Treasury and Capital Section may use the brokers detailed below to obtain funds from the money markets and to place investments in accordance with the Approved Lending List.

Sterling Brokers (UK) Ltd  
Prebon Marshall Yamane (UK)  
Martin Brokers (UK) PLC  
Tradition (UK) Ltd



Tullet and Tokyo  
Garban Intercapital

#### **2.2.4. Consultants / Advisers Services**

The Council's policy is to appoint full time professional treasury management advisers. The objective of the service is to minimise the cost of the Council's borrowings and maximise the return of the Council's Investments.

The Council's current contract is with Sector Ltd who provide advice on borrowing strategy, debt restructuring, interest rate and general economic forecasting, counterparty credit criteria advice, general leasing advice and advice on treasury management regulatory matters.

#### **2.2.5. Treasury Management IT Services**

##### Logotech

The Council currently has a contract with Logotech Ltd to use their treasury management database system, which provides a loan/investment register, cash flow diary, treasury management information database and long term cash forecasting tool. This contract commenced in 2003 and is to run for a minimum 5-year period.

##### Reuters

The Council also receives real time interest rate/economic information from a service provider, currently Reuters. This contract runs for an indefinite period.

##### On Line Dealing Website

The Council has use of on on-line dealing website provided by RP Martin Brokers in which available investment /borrowing trades can be viewed/placed on-line via RP Martin. This contract runs for an indefinite period and is free of charge.

##### On Line Money Market Portal

The Council has use of on on-line Money Market Portal provided by Sunguard Ltd in which the performance on money market funds can be reviewed and subscription/redemption instructions can be placed on line. This contract runs for an indefinite period and is free of charge.

#### **2.2.6. Policy on External Fund Managers (Other Than Relating to Pension Funds)**

The Council's current policy is not to use external investment fund managers to manage a proportion of surplus cash. The reason being that it is the policy of the Council not to use gilts or CD's as investment instruments for the

Council's surplus cash, as it is deemed to be too high a risk due to the risk of loss of capital value on these products. As such it is believed that the expected marginal return over which could be achieved internally, would be too low to justify investment of senior management time, if fund managers are restricted to cash investments only. This policy will be kept under review.

### **2.3. Methods To Be Employed For Measuring The Performance Of The Organisation's Treasury Management Activities**

- Performance measured against annual treasury strategies on borrowing and investment.
- Compliance to CIPFA Code of Practice on Treasury Management, CIPFA Prudential Code and ODPM Guidance on Local Government Investments.
- Expenses contained within approved budgets.
- Review of CIPFA Benchmarking Club data.
- Review of Performance Indicators.

### **2.4. Benchmarks and Calculation Methodology**

#### **2.4.1. Debt Management**

The performance of long term borrowing will be measured against: -

- The average rate on all external debt.
- The average rate on external debt on new borrowing in previous financial year.
- The average PWLB rate available for specific length of loans taken.
- The maturity profile of long term debt.

#### **2.4.2. Investment**

The performance of investment earnings will be measured against the 7 day LIBID rate (compounded weekly).

### 3. TMP3 DECISION-MAKING AND ANALYSIS

#### 3.1. Funding, Borrowing, lending and New Instruments / Techniques

##### 3.1.1. Issues to be Addressed

###### 3.1.1.1. In Respect of Every 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 interest and to deliver good housekeeping.
- d) Ensure that third parties are judged satisfactorily 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.

###### 3.1.1.2. In Respect of Borrowing and Funding Decisions, the Council will:

- a) Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- b) Consider the merits and demerits of alternative forms of funding to minimise costs and risks, e.g. borrowing, funding from revenue, leasing or private partnerships.
- c) Consider the sources of borrowing, the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- d) Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- e) Seek to reduce the overall level of financing costs / smooth maturity profiles through debt restructuring.

###### 3.1.1.3. In Respect of Investment Decisions, the Council will:

- a) Consider the optimum period of investment, in the light of cash flow availability and prevailing market conditions.
- b) Consider the alternative investment products and techniques available and their implications.
- c) Determine appropriate credit policy limits and criteria to minimize the Council's exposure to credit and other investment risks.

##### 3.1.2. Processes To Be Pursued

- Dealing arrangements – See TMP5 Section 5.6 to 5.13.
- Cash flow analysis.
- Maturity analysis.
- Ledger reconciliation's.
- Review of borrowing requirement / Prudential Code Indicators.
- Monitoring of projected capital finance costs.
- Monitoring of projected interest receipts.
- Monitoring of projected expenses costs.
- Review of debt rescheduling opportunities.
- Collation of quarterly performance information.
- Preparation of statistical and benchmarking returns.

### **3.1.3. Records To Be Kept**

#### **3.1.3.1 Investment Dealing Sheet**

The Treasury Manager will record the following information on a 'Daily Dealing Sheet', which is retained: -

- Current money market rates available – received by telephone or email from brokers or counterparties.
- Date, time, contact name, counterparty, amount, interest rate, period and settlement details of all investments (and temporary borrowing) made on the day.
- Reason for loan – basis on which a particular deal was judged to be the correct one.
- Details of any call account investment called back or placed during the day with an opening and closing balance summary.
- A printout of available interest rates shown on Reuters on the day (or the Internet) is attached to this dealing sheet.

#### **3.1.3.2 Logotech Treasury Management System**

Details of all loans and investments are entered onto the Logotech System by the Treasury Officer as follows: -

- Dealer or Broker
- Counterparty
- Interest Rate
- Dealing Date
- Interest Payment Date
- Repayment Date
- Term of Loan

- Loan Type
- Amount of Loan

A 'Deal Ticket' is produced for each loan/ investment entered, showing the details above. The Deal Ticket is retained on each individual loan file.

### **3.1.3.3 Long Term Borrowing Approval Record**

The Treasury Manager will outline, on a record sheet, a recommendation for taking any long term borrowing in accordance with the agreed budgeted borrowing requirement, in terms of timing, type, and length of loan. This record sheet is submitted to the Assistant Director (Finance & Asset Management) and/or the Head of Service (Treasury and Financial Strategy) in accordance with the Scheme of Delegation for approval prior to any borrowing being taken. The Director of Resources and the Assistant Executive Councillor for Resources are also kept informed of any borrowing that has been undertaken. The record sheet is retained with each PWLB loan file.

### **3.1.3.4 Other records which are kept, relative to each loan or investment taken**

#### Temporary Investments / Borrowing

- Daily cash projections (Logotech/Spreadsheet).
- Daily HSBCnet banking figures.
- Counterparty / Broker confirmations.
- Cash flow diary position (Held on Logotech).

#### Long Term Borrowing

- PWLB loan confirmations (From PWLB).
- PWLB loan repayment schedules (Spreadsheet/Logotech).
- Economic advice received from Treasury Advisers.
- PWLB interest rate sheets (From PWLB).

## 4. TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

### 4.1. Approved Activities of the Treasury Management Operation

#### Long Term Borrowing

- To determine the long term funding requirements of the Council.
- To make all arrangements to effect the long term funding requirements of the Council.
- To manage the Council's debt portfolio (debt repayment and rescheduling).
- To manage the interest rate exposure and maturity profile.
- To manage the underlying risk associated with the Council's capital financing activities.

#### Short Term Borrowing

- To calculate the level of short term funding required by the Council.
- To obtain and assess terms offered by lenders and identify the most cost effective options available to the Council.
- To make arrangements to obtain the level of short term funding required by the Council.

#### Investment

- To invest available surplus funds in approved Specified and Non-Specified Investments as outlined in the Council's Annual Investment Strategy.
- To maintain a list of approved Specified and Non-Specified Investments as outlined in the Council's Annual Investment Strategy.
- To manage the underlying risk associated with the Council's surplus fund activities.

#### Cash Flow

- To manage the Council's cash flow activities

#### Consideration, Approval and Use of New Financial Instruments and Treasury Management Techniques

#### Leasing

- To identify assets suitable for leasing and to obtain and arrange the appropriate leasing terms for these assets.
- To arrange leasing extensions to existing lease agreements where appropriate.

#### Banking

- To manage the Council's day-to-day banking activities.
- To arrange appropriate banking services for the Council by means of tender or negotiation.
- To manage banking volumes and banking charges.

#### External Fund Managers

- To appoint appropriate external fund managers if considered appropriate.
- To manage the relationship, information flows and performance of the external fund managers.

### **4.2. Approved Instruments for Investments**

In accordance with Section 15(1) of the Local Government Act 2003, effective from 1<sup>st</sup> April 2004, the Council has adhered to guidance on investments issued by the Secretary of State and as such produces an Annual Investment Strategy which outlines its policy on acceptable investments it will use having considered the security and liquidity of such investments. (see TMP6 Section 6.2).

Investments within this Annual Investment Strategy are divided between Specified Investments (less than 1 year maturity) and Non-Specified Investments (greater than 1 year maturity). The list below details the Specified and Non-Specified Investments that the Council has approved within its current Annual Investment Strategy: -

#### Specified Investments

- Investments in sterling which mature within and including 12 months with UK Government, Local Authorities and Banks and Building Societies who have a minimum credit rating of Short Term F1, Long Term AA-, Individual C (F for Nationalised Banks) and Support 3.
- Money Market Funds with a minimum credit rating of AAA/ Volatility Rating of MR1+.

#### Non-Specified Investments

- At this current time no investments greater than 12 months are approved.

### **4.3. Approved Techniques**

#### Investments

- **Forward dealing** limited to a total period (from arrangement date to maturity) of up to 1 years (See TMP1 – Treasury Risk Management Section 1.2.4 for details).
- **Callable deposits** up to a maximum limit of 1 years. (See TMP1 – Treasury Risk Management Section 1.2.4 for details).

#### 4.4. Approved Methods and Sources of Raising Finance

Finance will be raised in accordance with the Local Government Act 2003 and be controlled by adherence to the Prudential Code.

Approved methods of raising finance shall be as under noted. No instrument other than those listed below may be used without the approval of the Director of Resources.

<u>Long Term Borrowing</u>	<u>Fixed</u>	<u>Variable</u>
PWLB Maturity/Annuity/EIP Loans	Yes	Yes
Bank Market Loans	Yes	Yes
Internal Balances (Capital Receipts/Revenue Balances)	Yes	Yes
Leasing (Not operating leases)	Yes	Yes
European Investment Bank Loans	Yes	Yes
Deferred Purchase	Yes	Yes

<u>Short Term Borrowing</u>	<u>Fixed</u>	<u>Variable</u>
Bank Market Loans (less than 364 days)	Yes	Yes
Bank Overdraft	No	Yes
Internal Balances	Yes	Yes

#### Other Methods of Financing

Government and EC Capital Grants  
 Lottery Monies  
 PFI / PPP  
 Operating Leases  
 Hire Purchase

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



#### **4.5. Borrowing In Advance of Need**

In circumstances where interest rates are expected to increase, it can be financially advantageous to borrow in advance of need. The Prudential Code, effective from 1<sup>st</sup> April 2004, allows greater flexibility to be able to borrow in advance of need, as long as it can be demonstrated as affordable. Any borrowing by the Council in advance of need will have to be demonstrated to be linked to the 3 year plans for capital investment and funding of the Council.

#### **4.6. Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument. (See TMP 6 Section 6.2).

#### **4.7. Borrowing Limits**

The Treasury Management Strategy Statement and Prudential Indicators (TMP6 Sections 6.1 and 6.3) set out the limits and strategy for borrowing.

## 5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

### 5.1. Limits to Responsibilities / Discretion at Committee / Executive Levels

Policy & Resources Policy Working Group Consider and Portfolio Holder Approve:

- The Annual Treasury Management Strategy and Annual Investment Strategy.

Policy & Overview Committee will Receive and Approve:

- The Annual Treasury Management Report.

The Executive and Full Council will Consider and Approve:

- The Treasury Management Budgets (See TMP7 Budgeting – Section 7.2).
- Amendments to the organisation's adopted treasury management clauses within Financial Regulations.

The County Treasurer will Approve/Receive/Review:

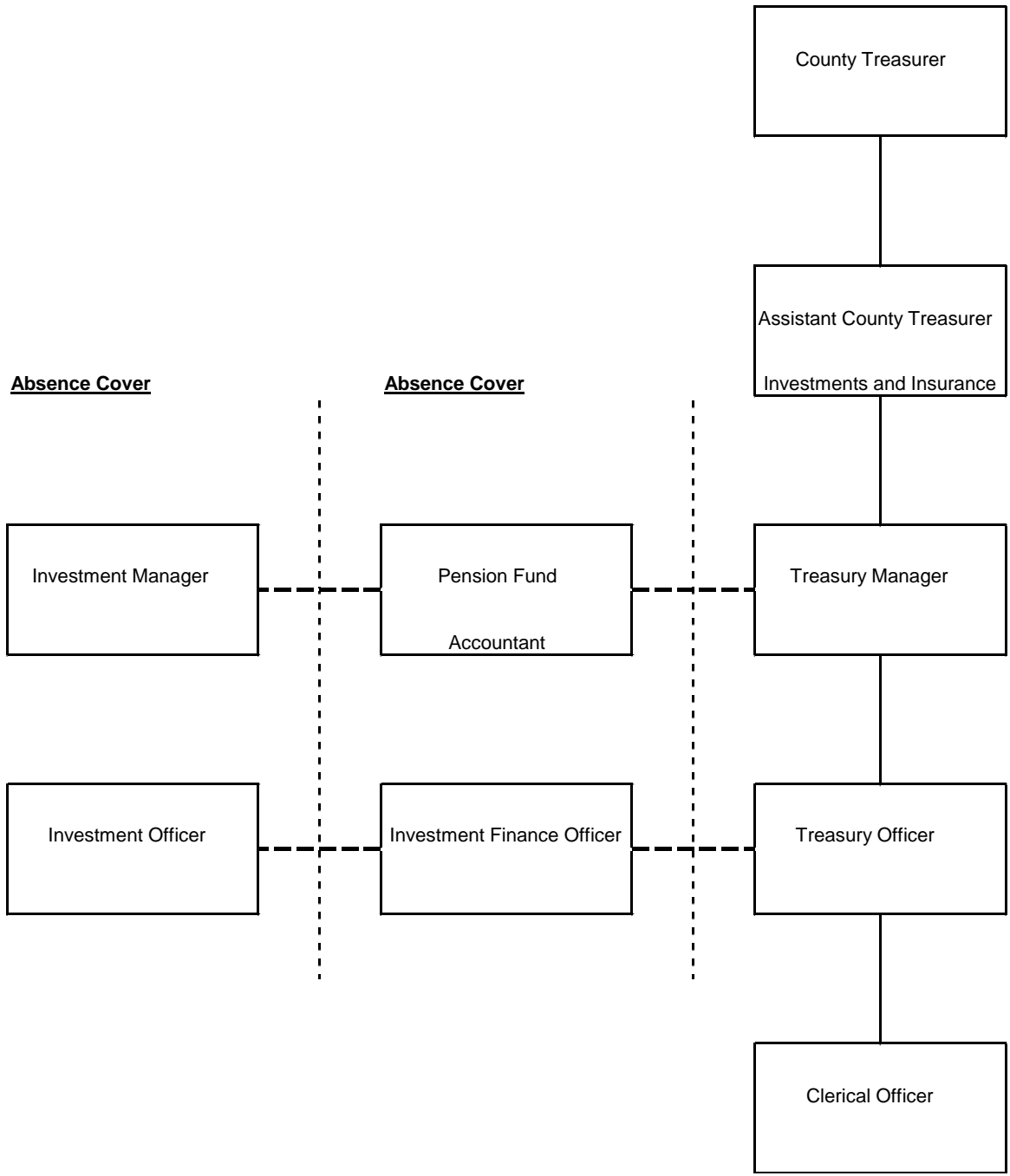
- Amendments to the organisation's Treasury Management Practice's.
- Delegation and segregation of responsibilities.
- External audit reports and will act on recommendations.
- Selection of external service providers in accordance with Contract Regulations and agree terms of appointment.

### 5.2. Principles and Practices Concerning Segregation of Duties

A clear segregation of duty exists between those officers authorised to execute borrowing and investments and those officers who are responsible for the recording and administrating of treasury decisions. For details see Section 5.4 - Duties and Responsibilities of Each Treasury Post.



**5.3. Treasury Management Organisation Chart**



#### 5.4. Statement of Duties / Responsibilities of Each Treasury Post

##### 5.4.1. County Treasurer

The County Treasurer is responsible for the execution and administration of treasury management decisions and will act in accordance with the Authority's Treasury Management Policy Statement.

All executive decisions on borrowings, investment or financing are delegated to the County Treasurer who shall be required to act in accordance with the CIPFA Code of Practice for Treasury Management, CIPFA's Standards of Professional Practice on Treasury Management and CIPFA's Prudential Code of Capital Finance (Effective from 01.04.2004)

The County Treasurer shall:

- a) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- b) Submit regular treasury management policy reports.
- c) Submit budgets and budget variations in accordance with financial regulations and guidance.
- d) Receive and review management information reports.
- e) Review the performance of the treasury management function and promote best value reviews.
- f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- g) Ensure the adequacy of internal audit, and liaison with external audit.
- h) Recommend on appointment of external service providers in accordance with Council Contract Regulations.

The County Treasurer 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 investment in approved instruments. The County Treasurer delegates his power to borrow and invest directly to the following members of Treasury staff.

- **Assistant County Treasurer (Investments and Treasury Management)  
(Absence Cover)**
- **Treasury Manager**

- **Investment Manager (Absence Cover)**
- **Pension Fund Accountant (Absence Cover)**

The County Treasurer will ensure that the policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transactions, it is the responsibility of the County Treasurer to be satisfied, by reference to the Monitoring Officer, the Council's Legal Section and External Advisors as appropriate, that the proposed transaction does not breach any statute, external regulations or the Council's Financial Regulations.

It is also the responsibility of the County Treasurer 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. Assistant County Treasurer (Investments and Treasury Management)**

The County Treasurer delegates his treasury management responsibilities listed above to the Assistant County Treasurer (Investments and Treasury Management) who is therefore responsible on a day-to-day basis for the performance of those duties with overall responsibility for the Treasury Function.

#### **5.4.3. Treasury Manager**

The Treasury Manager reports to the Assistant County Treasurer (Investments and Treasury Management) and is responsible for: -

- Managing the overall Treasury Function.
- Execution of daily lending and borrowing transactions as identified from short term cash flow operations.
- Adherence to agreed policies and practices on a day-to-day basis.
- Performance of the Treasury Function on a day-to-day basis.
- Supervising treasury management staff.
- Preparation of Treasury Management Practices and Treasury Management Policy Statement.
- Preparation of the Annual Treasury Management Strategy report.

- Preparation and review of Annual Investment Strategy and Authorised Lending List.
- Preparation of the Annual Report on Treasury Management.
- Preparation of reports on treasury management matters.
- Provision of advice on treasury activities, interest rates and general economic activity.
- Calculation and advice on interest / cash flow costs.
- Maintaining relationships with third parties and external service providers including the Council's treasury advisers.
- Maintenance of interest on deposits held within Authority's County Fund.
- Identifying and recommending opportunities for improved practices.
- Securing of appropriate treasury management external service contracts in accordance with Contract Regulations.
- Preparation and monitoring of Prudential Code Indicators relating to Treasury Management.
- Preparation of final account treasury management information for the Authority's Financial Statements.
- Preparation and management of cash flow forecasts.
- Preparation of capital financing estimates and interest earned estimates for budget requirements.
- Preparation of treasury performance indicators and relevant treasury management benchmarking information.
- Arrangement of PWLB Long Term Borrowing, as authorised by the County Treasurer and Assistant County Treasurer (Investments and Treasury Management).
- Arrangement of any required long-term debt rescheduling opportunities identified as appropriate.
- Responsibility for organisation of suitable lease finance.
- Review and maintenance of Authority's banking contract and relationship with bankers.

#### 5.4.4. Treasury Officer

The Treasury Officer reports to the Treasury Manager and is responsible for: -

- Preparation of the forecasted daily cash position to determine the daily investment or borrowing requirement.
- Ensuring all relevant cash flow information is input into the Treasury Management system (Logotech).
- Ensuring all Treasury Management transactions are recorded and input into the Treasury Management system (Logotech) and confirmations are received from counterparties.
- Calculation of the average yield earned on investments.
- Ensuring the timely calculation and payment (using the Hexagon system) of all principal and interest payable and receivable on all deals.
- Coding of all treasury management transactions into the General Ledger and performance of quarterly reconciliation's between the Logotech system and the General Ledger.
- Calculation of interest on all County Fund and Section 106 deposits and management of Highways deposits held within the County Fund.
- Assisting the Treasury Manager in the preparation of all required treasury management information requirements.
- Preparation of interest performance results compared to benchmarked data.
- Completion of relevant CIPFA and OPDM returns.
- Administration of suitable leasing finance.
- Preparation of monthly cash flow summary reports from the Logotech system.
- Preparation of monthly monitoring report showing daily bank balances with explanations of all occasions where balances breach + / - £100,000 target.
- Checking and payment of all external service provider charges (including bank charges).
- Calculation of accrued interest due to / from the Pension Fund in respect of cash transfers made during the year for items credited or debited to the incorrect account.



- Daily management of the Pension Fund bank account reconciliation process, and preparation of a monthly statement of outstanding entries.

#### **5.4.5. Clerical Officer**

The Clerical Officer reports to the Treasury Officer and is responsible for: -

- Calculation and input of all cheques and bacs information into the Logotech system.
- Filing of all appropriate loan records.
- Monitoring of all changes to Counterparty credit ratings.
- Administration of the County Council Business Card operation.
- Checking of counterparty & broker contract notes to the Logotech system.

#### **5.4.6. The Chief Executive**

The responsibilities of this post are: -

- Ensuring that the County Treasurer reports regularly to the appropriate committee (See Section 5.1) on treasury policy, activity and performance.

#### **5.4.7. Monitoring Officer**

The responsibilities of this post are: -

- Ensuring compliance by the County Treasurer with the Treasury Management Policy Statement and Treasury Management Practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any Code of Practice.
- Giving advice to the County Treasurer when advice is sought.

#### **5.4.8. Internal Audit.**

The responsibilities of Internal Audit are: -

- Reviewing compliance with approved policy and procedures.
- Reviewing division of duties and operational practice.

- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury functions.

### 5.5. Absence Cover Arrangements

The following arrangements shall apply when a member of the Treasury Section is absent from duty.

<u>Post Holder</u>	<u>Absence Covered By</u>
County Treasurer	Assistant County Treasurer (Investments and Treasury Management)
Assistant County Treasurer (Investments and Treasury Management)	County Treasurer Investment Manager Treasury Manager
Treasury Manager	Assistant County Treasurer (Investments and Treasury Management) Investment Manager Pension Fund Accountant
Treasury Officer	Investment Officer Investment Finance Officer
Clerical Officer	Treasury Officer Investment Finance Officer

### 5.6. Dealing Limits / Persons Authorised to Deal

#### 5.6.1. Long Term Borrowing

All long term borrowing decisions must be authorised by the County Treasurer or Assistant County Treasurer (Investments and Treasury Management), before being arranged by the Treasury Manager. No financial limits apply, as the level of borrowing is determined at budget setting time, in accordance with Prudential Code limits. It is general practice for the Assistant County Treasurer (Investments and Treasury Management) to consult the County Treasurer prior to approving any borrowing. The Assistant County Treasurer (Financial Strategy) is also consulted over the current position re the Capital Programme spend to date and funding requirement and the need to borrow before any new borrowing is taken.

### **5.6.2. Short Term Investment and Borrowing**

Officers with delegated Authority to deal are as follows: -

Assistant County Treasurer (I+TM)	David Forbes
Investment Manager	Ralph Gould
Pension Fund Accountant	Jim Heppell
Treasury Manager	Karen Tonge

No financial limits per post holder apply. Investment levels dealt are restricted to the individual limits per counterparty as specified in the Authority's Approved Lending List.

### **5.7. Direct Dealing / Use of Brokers Services**

It is the Council's policy to deal with either brokers or directly with Counterparties, with no restriction on the frequency of such deals. The Authority relies on the comparison of daily information available on interest rates, supplied by brokers or Reuters or on Internet sites to judge the suitability of deals transacted. This interest rate information is recorded with the Daily Dealing Sheets.

### **5.8. List of Approved Brokers**

Please refer to TMP 2 Best Value & Performance Management- Section 2.2.3.

### **5.9. Policy on Taping of Conversations**

It is not Council Policy to tape telephone dealing conversations.

### **5.10. Transmission Procedures**

#### **5.10.1. Settlement Transmission**

The transfer of funds for deals arranged shall be made via the Council's electronic banking software. This is presently the HSBC – Hexagon system.

Full details of the Hexagon System and procedure notes for operation can be found at **G:Inv& Treas Man/Procedure Notes/Treasury Management/Hexagon.**

### 5.10.2. Segregation of Duties

Three separate officers are required to arrange a transfer using the Hexagon System. One officer to input the transfer details, one officer to check the details input and the third to authorise and release the transfer. The system automatically prevents the same officer from inputting / checking data and authorising / releasing the payment.

### 5.10.3. Password Protection

The access to the computer banking system is controlled by passwords with access to functions within the system being controlled by the following Corporate Audit and Standards Officers.

- Assistant County Treasurer – Corporate Audit and Standards
- Audit Managers – (x 4)

The following officers have access to **input/check** the transfer details: -

- Assistant County Treasurer (Investments and Treasury Management)
- Investment Manager
- Pension Fund Accountant
- Treasury Manager
- Investment Officer
- Investment Finance Officer
- Treasury Officer

The following officers have access to **authorise and release** the transfer. (These officers are designated Authorised Bank Signatories within the Authority's Scheme of Delegation).

- County Treasurer
- Assistant County Treasurer – Financial Strategy & Contract Management
- Financial Advisor (Education)
- Financial Advisor (Social Services)
- Financial Advisor (Highways and Planning)
- Financial Advisor (Financial Planning)
- Property Manager
- Financial Advisor (External Funding)
- Financial Advisor (Community Safety and Corporate Planning)

### 5.10.4. Daily Dealing Procedure

Details of the deal transactions are recorded on a daily 'Dealing Sheet' by the Treasury Manager then passed to the Treasury Officer. The Treasury Officer enters the loan details into Logotech and produces a 'Deal Ticket' from the system. The Treasury Officer prepares a 'CHAPS Payment Form', required for all payments made by CHAPS, showing details of the amount to be transferred and attaches this to the Deal Ticket. The CHAPS Payment Form and Deal Ticket are then passed back to the Treasury Manager to be checked against the Dealing Sheet details.

Once checked and initialed the Treasury Manager then passes the CHAPS Payment Form and Deal Ticket back to the Treasury Officer who then inputs the details onto the Hexagon System.

The Treasury Manager then checks the input on the Hexagon system, initials the CHAPS Payment Form and transfers the details to a holding position on Hexagon, when satisfied that all is correct. The CHAPS Payment Form and Deal Ticket are then passed to an Authorised Bank Signatory who authorises and transfers the payment on the Hexagon system.

All parties involved in the above process sign the CHAPS Payment Form at all stages of the process.

#### **5.11. Documentation Requirements**

For each deal undertaken, the following records are required:

Daily Dealing Sheet – For details please refer to TMP3 Section 3.1.3.  
Logotech Record – Deal Ticket – For details please refer to TMP3 Section 3.1.3.  
CHAPS Payment Form – An example of this form can be found at on Excel at

**G:\Inv & Treas Man\PJS\Excel\Cash\Templates\Counterparty.xls.**

## 6. TMP6 REPORTING REQUIREMENTS AND MANAGEMENT ARRANGEMENTS

### 6.1. Annual Treasury Management Strategy Statement

#### 6.1.1. Submission to Council

The Annual Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming year. This Strategy Statement is presented to the Executive Councillor for Resources for approval, prior to the commencement of each financial year.

#### 6.1.2. Purpose

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

The Local Government Act 2003 introduced the new Prudential System governing Capital Finance in Local Authorities effective from 1<sup>st</sup> April 2004, whereby Councils are required to set a number of Prudential Indicators for periods up to 3 years forward to demonstrate that planned borrowing levels are affordable, prudent and sustainable. These prudential indicators are integrated within the Annual Treasury Management Strategy as they impact the strategy chosen.

#### 6.1.3. Content

The Annual Treasury Management Strategy therefore covers the following elements: -

- The current external borrowing / investment position.
- The borrowing requirements for the forthcoming 3 financial years.
- The Affordable Borrowing Limit in force that will limit the treasury risk and activities of the Council.
- The Prudential Indicators for the forthcoming 3 financial years.
- The prospect for interest rates for the forthcoming year.
- The long term capital borrowing strategy for the forthcoming year.
- The temporary investment strategy for the forthcoming year.
- The extent of debt rescheduling opportunities.
- Any other current treasury issues.

## **6.2. The Annual Investment Strategy**

### **6.2.1. Submission to Council**

The Annual Investment Strategy sets out the Council's policies for investing surplus cash and giving priority to the security and liquidity of its investments over yield. The Annual Investment Strategy is prepared in accordance with guidance issued by the Secretary of State (as referred to in the LGA 2003, Section 15(1)) and is submitted to the Executive Councillor for Resources for approval, along with the Annual Treasury Strategy as per 6.1 above, prior to the commencement of each financial year.

### **6.2.2. Content**

The Annual Investment Strategy distinguishes between Specified Investments (those offering high liquidity and high security) and Non-Specified Investments (which involve greater risks for potentially greater reward) that the Council will invest in and defines how the Council classifies investments into Specified and Non-Specified by setting its own credit criteria, predominantly based on independent credit ratings of institutions and countries. The Strategy must also lay down the principles to be used during the year in determining the amount of funds, which can prudently be committed for more than 1 year.

### **6.2.3. Changes to the Annual Investment Strategy**

Any proposed changes to the list of Specified and Non-Specified Investments included in the Annual Investment Strategy will be referred to the AD Finance and Asset Mgt and HOS Treasury & Financial Strategy after first seeking the advice of the Council's treasury advisors. Changes to the Annual Investment Strategy agreed by both these posts will then be referred to the Director of Resources and the Executive Councillor for Resources.

### **6.2.4. Report to the Executive Councillor For Resources**

The Executive Councillor will be informed on any occasion when investments are made for periods over 12 months.

### 6.3. Prudential Indicators

#### 6.3.1. Submission To Council

The Local Government Act 2003 introduced a new prudential system of local government finance from 1<sup>st</sup> April 2004, giving the Council freedom to borrow to fund capital expenditure as long as it is affordable. The Act requires the Council to comply with CIPFA's Prudential Code for Capital Finance, the key objectives being to provide a framework to ensure that Local Authority capital programs are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate this, a set of Prudential Indicators for the forthcoming and following 2 years must be determined in advance of the start of the year and will be submitted, along with the annual budget, to the Executive and Full Council for approval.

#### 6.3.2. Content

The Prudential Indicators set by the Council are as follows: -

- Repayment of external debt not to exceed 5 % of annual income from government grants and council tax (Voluntary Indicator).
- Actual and estimates of capital expenditure.
- Ratio of financing costs to net revenue stream.
- Actual and estimates of capital financing requirement.
- Authorised limit for external debt. \*
- Operational boundary for external debt.
- Incremental impact on council tax of capital investment decisions.
- Adoption and compliance with CIPFA's Code of Practice for Treasury Management.
- Upper limit for fixed interest rate exposure on borrowing less investments.
- Upper limit for fixed interest rate exposure on borrowing only (Voluntary Indicator).
- Upper limit for variable rate exposure on borrowing less investments.
- Upper limit for variable rate exposure on borrowing only (Voluntary Indicator).



- Upper limit for total principal sums invested for over 364 days.
- Maturity structure of new fixed rate borrowing.

\* It should be noted that the Prudential Indicator for the authorised limit for external debt is the statutory 'Affordable Borrowing Limit' determined under Section 3 (1) of the Local Government Act 2003.

The Director of Resources (delegated to the AD Finance & Asset Mgt as S151 Officer) has responsibility to set the authorised limit for external debt, to monitor the external debt level and to report to the Executive & Full Council, if he is of the view that the limit is likely to be breached. The Executive & Full Council has then to decide to take the appropriate action for the limit not to be breached or to raise the limit if prudent to do so.

### **6.3.3. Changes to the Prudential Indicator Limits**

The Director of Resources (delegated to the AD Finance & Asset Mgt as S151 Officer) is responsible for ensuring compliance with the Prudential Indicator limits and any necessary amendments to these limits will be submitted to the Executive for approval.

### **6.3.4. Prudential Indicator Monitoring Reports**

Quarterly monitoring reports are submitted to the AD Finance & Asset Mgt showing activity to date against Prudential Limits.

## **6.4. Mid-Term and Annual Report on Treasury Management Activity**

### **6.4.1. Submission to Council**

The mid-term report details the results of the Council's treasury management activities over the first six months of the previous financial year and the annual report details results for the whole of the previous financial year. These reports are submitted to the Value for Money Scrutiny Committee for consideration and the Executive Councillor for Resources for approval in November for the Mid-Term report and for the Annual Report, at the earliest practicable meeting after the end of the financial year, but in any case by the end of September.

### 6.4.2. Content

The Mid-Term / Annual Report will therefore cover: -

- An interest rate review.
- Investment arrangements, activity and performance.
- Borrowing arrangements, activity and performance.
- Monitoring of compliance with approved policy, practices and statutory / regulatory requirements.
- Other treasury management activity or current issues.

### 6.5. Management Information Reports

The following management information reports will be prepared by the Treasury Officer and presented to the Treasury Manager and Financial Advisor (Treasury & Capital).

- Monitoring of daily cash balances – showing deviations +/- target limit of £100,000 with explanations for deviation (Prepared monthly).
- Investment return compared to the benchmark. (Prepared quarterly).
- Maturity report of investments. (Prepared monthly).

The following management information report will be prepared by the Treasury Manager for information to be presented to the Financial Advisor (Treasury & Capital) and the HOS (Treasury & Financial Strategy).

- Projection of interest earned. (Prepared monthly).
- Projection of capital financing costs. (Adhoc).

## 7. TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

### 7.1. Statutory Regulatory Requirements / Accounting Practices and Standards

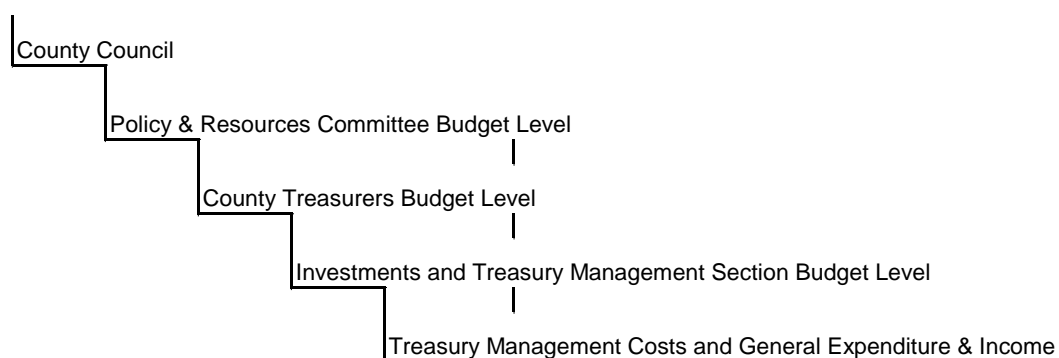
The Authority's accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practice.

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Authority adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services', together with those of its specific recommendations that are relevant to the Authority's treasury management activities.

### 7.2. Budget and Accounts – Treasury Management

#### 7.2.1. Employee Costs and General Operating Income and Expenses

The budget for treasury management employee costs and general income and expenditure costs of the Treasury Management Section are held within the Investment and Treasury Management Section Budget, which forms part of the following SAP budget hierarchy: -



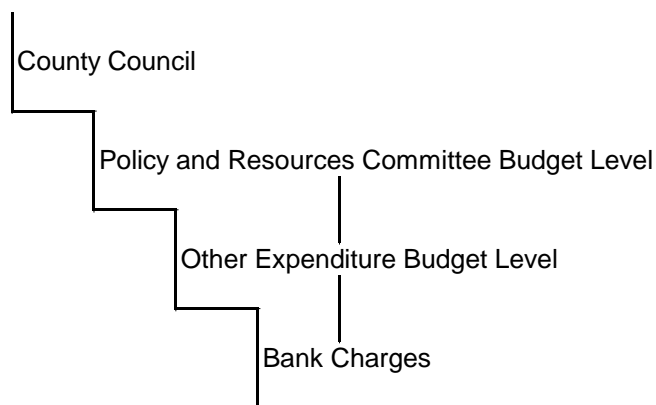
The Investment and Treasury Management Section Budget also includes all the employee costs and general operating income and expenses associated with the Authority's pension fund investment management, and insurance fund management as well as for the treasury management function.

During the financial year, budget monitoring reports are produced every four weeks and are reviewed by the Assistant County Treasurer (Investments and Treasury Management) who is the budget holder for the Investments and Treasury Management Section Budget.

Employee costs collected under this budget heading are subsequently recharged to the Pension Fund, Insurance Fund and Interest on Revenue Balances Budget at the year end.

### 7.2.2. Banking Costs

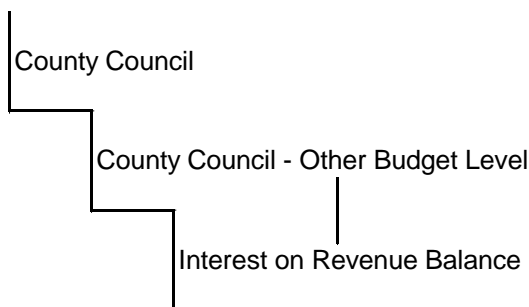
The budget for banking costs is held within the Other Expenditure Budget, which forms part of the following SAP budget hierarchy: -



During the financial year, budget monitoring reports are produced every four weeks and reviewed by the Assistant County Treasurer (Investments and Treasury Management) who is the budget holder for the Bank Charges Budget.

### 7.2.3. Interest on Revenue Balances

The budget for interest earned on revenue balances is held with the County Council – Other Budget and forms part of the following SAP budget hierarchy: -



All external interest accrued on the Authority's cash balances and other operations are held in this budget area and all external interest payments made are deducted from this budget area. The direct costs of performing treasury management activities such as IT treasury management costs (Reuters and Logotech) and an administration recharge for Treasury Management (employee costs) are also deducted from this budget area.

The budget area is monitored regularly by the Treasury Manager (Budget Holder) and budget forecasts are provided to Assistant County Treasurer (Financial Strategy and External Funding) as part of the budget setting process.

### **7.3. Information Requirements of External Auditors**

Information required by the External Auditors when auditing the treasury management area of the Financial Accounts is as follows: -

#### Loans

- Reconciliation of loans interest and premiums paid to the financial ledger by loan type.
- Maturity analysis of loans outstanding.
- Analysis of accrued interest.
- Calculation of interest earned.

#### Borrowing

- Summary and details of new borrowings or any debt restructuring.
- Principal and interest charges reports from the Treasury Management System (Logotech).
- Reconciliation of the financial ledger.

- Analysis of accrued interest and principal.
- Explanation of significant variances for year on year actuals.

## **8. TMP8 CASH AND CASH FLOW MANAGEMENT**

### **8.1. Responsibility, Type and Frequency of Cash Flow Budgets**

#### **8.1.1. Logotech**

Logotech is the Treasury Management database which holds all the cash flow, investment and borrowing information of the Authority.

Information is input into Logotech by various members of the Treasury Management Section on an ongoing basis. Both estimated and actual information is held within Logotech.

#### **8.1.2. Annual Cash Flow (Long Term)**

This is prepared on spreadsheet by the Treasury Manager at budget setting time, calculated from previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payment and receipt dates.

Annual cash flows are prepared on spreadsheet for the following year, plus a further 2 financial years, in order to estimate net interest receipts for Prudential Code Indicator calculations.

The estimated cash flows for the following year taken from the spreadsheet are then input into the Logotech system by the Treasury Officer.

The annual cash flow is updated on the spreadsheet on a monthly basis, throughout the year, for actuals that have been input into Logotech throughout the previous month by the Treasury Officer and Treasury Manager.

Revised projections for the rest of the year are undertaken quarterly by the Treasury Manager and estimates of interest to be earned on balances is provided quarterly to the Assistant County Treasurer (Financial Strategy and External Funding).

#### **8.1.3. Daily Cash Flow**

A daily cash flow is prepared each morning by the Treasury Officer using the Logotech system. Relevant current day banking information from the treasury management banking software (Hexagon) is input into Logotech on a daily basis and the daily cash flow and banking information is used by the Treasury Officer to determine the daily cash investment (or temporary borrowing)

requirements, by completing a Daily Cash Figure spreadsheet. This spreadsheet can be found at **G:\Inv & Treas Man\KT\Excel\Cashflow\Newfigs.xls.**

## 8.2. Content and Frequency of Cash Flow Budgets

All cash flow information is held in the treasury management database (Logotech) and this information is used to produce the long term annual and daily cash flow forecasts.

The content of the cash flow information held (including the Logotech Reference Code) together with the frequency of occurrence of such information is as follows:

<u>Expenditure</u>	<u>Frequency</u>
-General Expenditure	
BACS – Bacs Payments	Daily
CXFER Transfers to Pension Fund	Various
CHQS – Cheque Payments	Daily
OTHDR – Chaps Payments	Various
-Pension Fund General Expenditure	
PFBAC – Bacs Payments	Various
PFCHQ – Cheque Payments	Daily
PFDRS – Capital Account Settlements	Various
PFEXP – Chaps Payments	Various
PFXFR – Transfers to County Fund	Various
PF – IR – Pension Fund Inland Revenue Payments	Monthly
-County Fund Expenditure	
HBS – Hyder Business Service Contract Payments	Monthly
INREV – Inland Revenue Payments	Monthly
PRENV – Environment Agency Precept Payments	Quarterly
TPENS – Teachers Pension Payments	Monthly
-Payroll Payments	
SAL01 – LCC Schools	Monthly
SAL03 – Retained Fire	Monthly
SAL04 – Home Care	4 Weekly
SAL05 – Magistrates Courts	Monthly



SAL08 – Fire Pensions	Monthly
SAL09 – Teachers Pensions	Monthly
SAL14 – LCC Directorates	Monthly
PF07P – Pension Fund	Monthly
-Investments/Loans	
PWLB – Principal and Interest Payments	Various
T – Short Term Borrowing Repayments and Interest Payments	Various
D – Investments Made	Various

**Income****Frequency**

-General Income	
GENCR – General Income	Various
VATRF – Vat Refund Receipt	Monthly
HBSIN – Hyder Business Services Income Due	Monthly
-Pension Fund Income	
PFCRS – Pension Fund General Income	Various
PFINC – Pension Fund Capital Account Settlements	Various
PFDIV – Pension Fund Dividend Account Settlements	Various
-Precepts	
PREBO – Boston BC Precept Months)	Monthly (10
PREEL – East Lindsey DC Precept Months)	Monthly (10
PRELC – Lincoln City Precept Months)	Monthly (10
PRENK – North Kesteven Precept Months)	Monthly (10
PRESH – South Holland Precept	Monthly (10 Months)
PRESK – South Kesteven Precept Months)	Monthly (10
PREWL – West Lindsey Precept	Monthly (10 Months)
-Government Grants	
RSG – Revenue Support Grant/National Non Domestic Rate	Various
DFES – Department for Education and Science	Various
DFT – Department of Transport	Various
DOH – Department of Health	Various
HIGH – Highways Department	Various
HOFF – Home Office	Various

LCD – Lord Chancellors Department	Various
LESKL – Learning Skills	Various
NEWOP – New Opportunity Grant	Various
ODPM – Office for the Deputy Prime Minister	Various
PCT – Primary Care Trust Grant	Various
-Investments/Loans	
PWLB – PWLB Principal Received	Various
D – Principal and Interest on Investment Received	Various
T – Short Term Borrowing Received	Various

### 8.3. Sources of Cash Flow Information

#### Expenditure

	<u>Source</u>
Payroll Information	HBS Payroll Section
Cheques and BACS Information (Including Inland Revenue Checkpoint/ provided And Teachers Pensions)	BACS by the HBS Cashier/ HBS Payments Section
Contract Payments to HBS	CTO Contract Team
Environment Agency Precepts	CSSO – Admin
PWLB Payments	PWLB / Logotech
Loan Payments and Interest Logotech	Counterparties /

#### Income

	<u>Source</u>
Precepts	Financial Strategy – County Treasurers Office
RSG / NNDR Prime Minister	Office for Deputy

Government Grants Hexagon	HBS Accountancy /
VAT Refunds	HBS Accountancy
Pension Fund Settlements Treasury	CTO Investments and Management Section
HBS Income	HBS Accountancy
PWLB Receipts	PWLB
Loan and Interest Receipts Logotech	Counterparties /

#### 8.4. Bank Reconciliation Procedure

##### 8.4.1. Objective of Bank Reconciliation

The objective of the bank reconciliation function is to ensure that:

- All cash postings, which flow through the Authority's bank accounts, are reconciled to all expenditure and income postings within the Revenue/Capital Accounts and Balance Sheet of the Authority.
- To ensure that the cash stated on the Authority's Balance Sheet is correct and reflects the true bank balance of the Authority at all times and that all suspense accounts are cleared.
- To verify that the information on cash balances provided by the bank are correct.

- To provide management with information in order to manage efficiently it's cash balances through cash flow forecasts.

#### **8.4.2. Procedure**

The Authority's Financial Ledger Accounts are held on a system called SAP. The bank reconciliation process within SAP operates on a real time basis updating cash accounts in the Balance Sheet automatically on the input of bank statement entries.

Bank statement entries are input into SAP either electronically, for high volume accounts, using a system called 'Mailbox' or manually for low volume accounts, by the Bank Reconciliation Team in HBS (CTO Investments for the Pension Fund Account).

The process relies on matching bank statement entries input to items already posted into the Revenue/Capital accounts and Vendor/Customer accounts in SAP, by employees County Council wide who have access to SAP.

It is the responsibility of the Bank Reconciliation Team in HBS (CTO Investments for the Pension Fund Account) for ensuring that all bank statement items are valid and have been matched correctly to items already within the accounts and to investigate any discrepancies or unmatched items.

#### **8.4.3. Reporting**

Monthly bank reconciliation reports on specified dates for all main bank accounts (not including school or imprest accounts) are provided to the Treasury Manager by the HBS Bank Reconciliation Team (CTO Investments for Pension Fund Account). The report shows the balance on each Cash Account General Ledger Code and provides the 'true bank balance' position at each month end. Unprocessed bank items in suspense are also reported. The Treasury Manager will ensure compliance with the specified processing target of no unprocessed or suspense items relating to months prior to the month reported.

#### **8.4.4. Bank Reconciliation Guidance Manual**

Full details of procedures and responsibilities of Bank Reconciliation, can be found in the Bank Reconciliation Guidance Manual held by the Treasury Manager in the CTO Investment & Treasury Management Section.

### **8.5. Payment Scheduling & Agreed Terms of Trade with Creditors**

The Authority's policy is to pay its Creditors on the 28<sup>th</sup> calendar day (or next working day) from the invoice date. Earlier payment justifications do exist for certain payments and these are adhered to. Payment scheduling is therefore determined by this policy.

Further details of Lincolnshire County Council's Payment Policy and Payment Timescale Policy can be found in Financial Procedure 5 – Procurement within the Authority's Constitution held on George, the Authority's Intranet.

## **8.6. Arrangements for Monitoring Debtor/Creditor Levels**

### **8.6.1. Debtors**

HBS Exchequer Services Manager provides the Assistant County Treasurer (Investment & Treasury Management) with reports detailing:

- Bad Debt Provision – Annual Report
- Average Age of Outstanding Debtors – Monthly Report

### **8.6.2. Creditors**

HBS Exchequer Services Manager provides the Assistant County Treasurer (Investment & Treasury Management) with reports detailing:

- Invoices paid by Directorate – Quarterly Report
- Percentage of Invoices Paid within 28 days – Quarterly Report

## **8.7. Procedures For Banking of Funds**

All money received by an officer on behalf of the Council will without unreasonable delay be banked into the Authority's banking accounts either at locations throughout the County with the facility to bank cash or centrally by HBS Revenue Services Cashier Section. No deductions may be made from such money received unless specifically authorised by the County Treasurer.

For full details on receiving, banking and monitoring of income refer to Financial Procedure 10 – Income Control.

## **8.8. Prepayments to Obtain Benefits**

It is the Council's policy, under normal circumstances, for payments to be made only after goods and services have been received. Suppliers should be encouraged to accept County Council orders.

In a limited number of circumstances, for example where benefits are obtainable, it may be necessary to pay for goods and services in advance. There are risks in doing so which should be taken into account when initiating a payment in advance. These risks are:

- The supplier may fail to deliver goods or services (in case of bankruptcy).
- In disputes payment cannot be withheld.

A cash flow exercise should also be undertaken to demonstrate if true cash benefit exists.

For full details on procurement, ordering, and payment of goods and services refer to Financial Procedure 5 – Procurement.

## 9. TMP9 MONEY LAUNDERING

### 9.1. Procedures for Establishing Identity / Authenticity of Lenders

The Authority does not accept loans from individuals. All loans are obtained from the PWLB, other Local Authorities or Universities or from Authorised Institutions under the Banking Act 1987 (i.e. Banks or Building Societies). The register of authorised institutions is kept by the Financial Services Authority (FSA). This can be accessed through their Website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

### 9.2. Methodology for Identifying Sources of Deposits Received

The Authority only lends money to or invests with those counterparties that are on its Approved Lending List. Before transferring money to any new counterparty, a fax is requested from the counterparty on their letter headed paper, that details contact names, telephone numbers and banking settlement details. These details are kept on file by the Treasury Officer. In accordance with the **new Money Laundering Regulations**, new counterparties should also seek the same information from the Authority, along with evidence of the Authority's legal status, Constitution and authority to deal. This information is provided when requested by the Treasury Section.

### 9.3. Procedure to Follow if Suspicious Deposit Received

The Authority does not have a designated Money Laundering Officer at present. Any suspicion over a deposit received should be reported to the Assistant County Treasurer (Investment and Treasury Management).

## 10. TMP10 STAFF TRAINING AND QUALIFICATIONS

### 10.1. Staff Training

Staff training needs are generally identified as part of the training/development needs analysis undertaken during each employee's individual Appraisal. These training needs can either be general or specific to treasury management. Treasury management training will be undertaken for all employees involved in treasury management where existing skills and knowledge are insufficient.

### 10.2. Approved Training Courses

There is currently no approved treasury management training course. Training is available from the Council's treasury management advisors, IPFA, brokers, The Local Government Chronicle and other treasury and leasing advisors and training firms on treasury management and related topics. Training will also be provided in-house if appropriate for all employees involved in treasury management.

### 10.3. Records of Training Received By Treasury Staff

Records of training and training needs are held on each employees appraisal record.

### 10.4. Approved Qualification For Treasury Staff

There is currently no approved treasury qualification. The following qualifications are required for each of the following treasury posts: -

Post	Qualification
ACT (Investment & Treasury Management)	A qualified accountant with at least 7 years post qualification experience, including 3 years in a senior management role. It is necessary for the post holder to have high levels of professional, technical & managerial skills.
Treasury Manager	A qualified accountant with a minimum of 3 years post qualification experience; or membership of AAT with at least 5 years post qualification experience, with a minimum of 2 years at Senior Accounting Technician level.
Treasury Officer	Membership of AAT with at least 3 years



	post qualification experience or equivalent practical and relevant experience.
Clerical Officer	4 GCSEs including English Language and Mathematics and a minimum of 1 years experience.

## 11. TMP11 USE OF EXTERNAL SERVICE PROVIDERS

### 11.1. Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants and Advisors

#### 11.1.1. Banking Services

- Name of Supplier of Service: -  
HSBC plc  
Stonebow Branch  
221 High Street  
Lincoln  
LN1 1TS
  
- Renegotiated Contract commenced on 1 April 2004 and runs for 3 years until 31 March 2007.
  
- Cost of service is variable depending in schedule of tariffs and volumes.
  
- Payments are due quarterly.

#### 11.1.2. Money Broking Services

- Name of Suppler of Service: -  
Sterling Brokers (UK) Ltd  
Prebon Marshall Yamane (UK)  
Martin Brokers (UK) plc  
Tradition (UK) Ltd  
Tullet & Tokyo  
Garban Intercapital

### 11.1.3. Consultants'/Treasury Advisers' Services

- Name of Supplier of Service: - Sector Treasury Services Ltd  
17 Rochester Row  
Westminster  
London  
SW1P 1QT
  
- Contract commenced on 1 April 2003 and runs for 3 years until 31 March 2006.
  
- The cost of service is as follows:  
Year 1 £7500  
Year 2 £8500  
Year 3 £9500
  
- Payments are made annually in advance.

### 11.1.4. Treasury Management IT Services

#### Treasury Management Database:

- Name of Supplier of Service: - Logotech Ltd  
Unit 20 Littleton House  
Ashford  
Middlesex  
TW15 1UU  
Tel: 01784 420797
  
- Contract commenced on March 2003 and runs for a minimum of 5 years until March 2008.
  
- The cost of service is as follows:  
Year 1 -Cost of Software £9950  
-Installation £1500  
  
Annual License Fee £3063
  
- Training expenses payable (travel & subsistence of trainer).

- Annual license fee is payable annually in advance.

Treasury/Economic Real Time Information Service:

- Name of Supplier of Service: - Reuters Ltd  
85 Fleet Street  
London  
EC4P 4AJ  
Tel: 0800 169 7584
- Contract is ongoing with no penalties for termination.
- The cost of service is as follows: Quarterly Fee £1275  
(Annual Cost £5100)
- Payable quarterly in advance.

**11.2. Procedures and Frequency for Tendering Services**

Please refer to TMP2 Best Value and Performance Measurement Section 2.2.

## 12. TMP12 CORPORATE GOVERNANCE

### 12.1. List of Documents to be Made Available for Public Inspection

- Lincolnshire County Council Constitution.
- Annual Accounts.
- Annual Budgets.
- 3-Year Capital Plan.
- Treasury Management Policy.
- Treasury Management Strategy Statement.
- Annual Investment Strategy.
- Annual Treasury Management Report.
- Access to Minutes at Libraries or via internet (LCC Connect)

### 12.2. Procedures for Consultation with Stakeholders

Not relevant as Treasury Management is a highly technical central support service. Accountability to Members, as outlined elsewhere, is all that is relevant.