



**Greater Manchester Waste Disposal Authority
Treasury Management Practices**

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TMP 1 Risk Management

The Responsible Officer (Chief Financial Officer) will design, carry out and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability of that, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's aims about this, all in line with the procedures set out in TMP 6 Reporting Requirements and Management Information Arrangements. For each of the following risks, the arrangements which seek to make sure compliance with these aims are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's reduced creditworthiness, and the resulting harmful effect on the organisation's capital or current (revenue) resources.

This organisation regards a key aim of its treasury management activities to be the security of the principal sums it invests. In line with this, it will make sure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 Approved Instruments, Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy about those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

- a. The Authority will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
- c. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the Authority.
- d. The Responsible Officer will devise suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list including maturity periods, type, group, country and counterparty limits.

This assessment of creditworthiness can be found in the Annual Investment Strategy within the Treasury Management Strategy Statement.

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

As this methodology is complex, you are referred to the document produced by Capita Asset Services (formerly Sector) "Guide to Establishing Credit Policies December 2011" for a full explanation.

- e. Credit ratings for individual counterparties can change at any time. The Finance Officer is responsible for applying approved credit rating criteria for choosing approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for choosing of counterparties.
- f. This organisation will not only rely solely on credit ratings in order to choose and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
 - The quality financial press
 - Market data
 - Information on government support for banks and
 - The credit ratings of that government support
- g. Maximum maturity periods and amounts to be placed in different types of investment instrument can be found in the Annual Investment Strategy.
- h. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the limits contained in the creditworthiness policy in the Annual Investment Strategy within the Treasury Management Strategy Statement.
- i. The definition of 'high credit quality' in order to decide what are specified investments as opposed to non specified investments which do not have high credit ratings is set out in an Appendix to the Treasury Management Strategy Statement.
- j. Should the Authority elect to use external cash fund manager(s) as part of their treasury management strategy, they will adhere to the counterparty credit criteria and maximum individual limits set by the Authority; however it is understood that the fund manager(s) may use a subset of the counterparty list so derived.

1.2 Liquidity Risk Management

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

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

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

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

1.2.2 Details of:

- a. **Bank overdraft arrangements**
The Authority does not have an overdraft arrangement in place but would be allowed to lapse into an unarranged overdraft.
- b. **Short-term borrowing facilities**
The Authority would firstly seek to borrow short term from other local authorities within Greater Manchester. If this option was unavailable the Authority would seek to access temporary loans through approved brokers on the London money markets. This would be done with the prior consent of the Treasurer & Deputy Clerk.
- c. **Insurance/guarantee facilities**
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest Rate Risk Management

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

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in line with the amounts provided in its budgetary arrangements as amended in line with TMP 6 Reporting Requirements and Management Information Arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time keeping a sufficient degree of flexibility to take advantage of unexpected, potentially helpful changes in the level or structure of interest rates. This should be keeping to the consideration and, if needed, approval of any policy or budgetary implications.

1.4 Exchange Rate Risk Management

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

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

1.5 Refinancing Risk Management

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

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

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

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

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

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

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

Rescheduling will be reported to the Audit Committee at the meeting immediately following its action.

1.5.2. Projected Capital Investment Needs

The Responsible Officer will prepare a three year plan for capital spending for the Authority. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital spending and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

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

In considering the affordability of its capital plans, the Authority will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue spending forecasts for the next year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list)

The Authority will use the definitions provided in the Prudential Code for borrowing (65), capital spending (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

1.5.4 PFI, Partnerships, ALMOs and guarantees

The Authority has entered into a 25 year Waste and Recycling Management PFI Contract with Viridor Laing (Greater Manchester) Limited. The Authority is also, uniquely, part of the syndicate of banks lending into the Contract. Expectations were that the Authority may be financed out of the Contract during 2014/15 and as such PWLB loans had been structured to mature around that time. Refinancing is now not expected until 2016 or 2017 at the earliest, and in the short-term loans will not be replaced, but will instead be funded by cash balances. The Authority is therefore taking a risk on not being refinanced and having to acquire new PWLB loans at that time.

1.6 Legal and Regulatory Risk Management

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

This organisation will make sure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will show such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 Credit and Counterparty Risk Management, it will make sure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

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

1.6.1. References to Relevant Statutes and Regulations

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

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) - power to issue guidance; to be used re: MRP

- S.I. 2008 no. 414 (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Revised Guidance on Investments DCLG 1.4.2010
- Localism Act 2011
- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 - duty on the Responsible Officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA (housing authorities) - annual determination by Secretary of State
- Definition of HRA capital spending - Local Government and Housing Act 1989 section 74 (1)
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- SORP - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (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
- The Authority's Standing Orders relating to Contracts
- The Authority's Financial Regulations
- The Authority's Scheme of Delegated Functions

PLEASE NOTE

At the time of writing, revised regulations and/or guidance on investments had not been issued.

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

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

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

In addition, it will make available if asked the following: -

- a. the scheme of delegation of treasury management activities which is in TMP 5 which states which officers carry out these duties
- b. the document which sets out which officers are the authorised signatories.

Required Information on Counterparties

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

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

The Responsible Officer shall take appropriate action with the Chair of the Authority to respond to and manage appropriately, political risks such as change of majority group, leadership in the Authority, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Solicitor to the Authority; the duty of this officer is to make sure that the treasury management activities of the Authority are lawful.

1.6.5 The Responsible Officer (Chief Financial Officer)

The Responsible Officer is the Treasurer & Deputy Clerk; the duty of this officer is to make sure that the financial affairs of the Authority are conducted in a prudent manner and to make a report to the Authority if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

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

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

The Authority will therefore:-

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

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

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the Responsible Officer or authorised persons.
- Loan procedures are defined in the Authority's Financial Regulations.

Procedures

- The Authority financial software package is Pegasus Opera 3. BACS payments produced from Pegasus are for Creditors and Payroll. These are bulk BACS batches which are then imported into the Cooperative Bank software accessed over the internet. One authorised person can import the payment and a different authorised person can approve the payment online using their security token.
- CHAPS payments are first raised on a form contained within Microsoft Word. This then has to be authorised by one of the bank signatories prior to being input into the Cooperative Bank's Financial Director system. The payment will need to be accepted by use of a security token by the inputter before it can be approved by a different bank signatory, again via the use of a security token.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in MS Excel.
- A written acknowledgement of each deal is sent on request to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the institution for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the broker for resolution.
- Contract notes for transactions carried out by the external fund manager(s) will be received as executed and maintained.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- All details of money borrowed or lent and is due to be repaid is contained within the various treasury files in MS Excel.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution (see 1.5.1.6.) that the Authority invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Authority's bank holds a list of Authority officials who are authorised signatories for treasury management transactions.
- No member of the treasury management team is an authorised signatory.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- The Cooperative Business Banking Online system can only be accessed by a password and a security token.
- There is adequate insurance cover for employees involved in loans management and accounting.
- Capital and interest withdrawals and capital injections in respect of monies managed by external fund managers can only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The statement balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.
- A debt charge/investment income listing is produced every month when a review is done against the budget for interest earnings and debt costs.
- (If using external fund managers). The valuations and investment income statements received monthly from the Authority's fund managers will be checked and kept for audit inspection. The Authority will make sure that the external funds we invest in, are accounted for in line with proper accounting practices.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated using Microsoft Excel.
- MS Excel calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledgers.

1.7.2. Emergency and Contingency Planning Arrangements Business Continuity Plan.

The Authority has a detailed Business Continuity Plan which contains provision for access to computer systems and servers held by but not details of where the office space would be. All computer files are backed up on the servers to allow files to be accessed from remote sites.

All files about treasury management are Microsoft Office applications and as such could be accessed from any network location. The Authority's offices are not housed in the same location as the servers.

The Authority's Banking System is web based and can be accessed from any computer using the personalised security token. If no internet connection could be established procedures are in place whereby faxed authorisation forms can be used for the Authority's bankers to process payments on their behalf.

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

1.7.3. Insurance Cover Details Fidelity Insurance

The Authority has 'Fidelity' insurance cover with Zurich. This covers the loss of cash by fraud or dishonesty of employees. This cover is limited to £18m for any one event.

Professional Indemnity Insurance

The Authority does not have 'Professional Indemnity' insurance.

Business Interruption

The Authority also has 'Business Interruption' cover as part of its property insurance with Zurich.

1.8 Market Risk Management

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

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

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

The limits are determined and set through the Annual Investment Strategy (which now forms part of the Annual Treasury Management Strategy Statement).

TMP 2 Performance Measurement

2.1 Evaluation and Review of Treasury Management Decisions

The Authority has a number of approaches to checking treasury management decisions: -

1. Continual informal reviews carried out by the treasury management team
2. reviews with our treasury management consultants
3. annual review after the end of the year as reported to the Authority
4. quarterly monitoring reports to the Audit Committee
5. comparative reviews
6. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic reviews during the financial year

The Senior Accountant holds a treasury management review meeting with the treasury management team informally to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include:

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

2.1.2 Reviews with our treasury management consultants

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

2.1.3 Annual Review after the end of the financial year

An Annual Treasury Report is submitted to the Authority each year after the close of the financial year which reviews the performance of the treasury management function.

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the Authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will, if appropriate, be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- Other available benchmarks

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

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

2.2.2 Investment.

The performance of investment earnings will be measured against published benchmarks as appropriate to this Authority's activities.

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

The Authority will test value for money as part of its normal business procedures and will carry out any required tender processes in line with its published Contract Procedure Rules contained within the Constitution. Treasury Management advisory services are due to be re-tendered from 2015/16. It is expected that this exercise will be largely conducted in Q3 (October to December 2014).

TMP 3 Decision-Making and Analysis

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

3.1.1 Records to be kept

The Treasury section uses Microsoft Excel to record all investment and loan transactions. The following records will be kept: -

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

3.1.2 Processes to be pursued

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

3.1.3 Issues to be addressed.

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

- a) above all be clear about the nature and extent of the risks to which the Authority 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 received;
- c) be content that the documents are adequate both to deliver the Authority's aims and protect the Authority's interests, and to deliver good housekeeping;
- d) make sure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded; and
- e) be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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

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

3.1.3.3 In respect of investment decisions, the Authority will:

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions; and
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.

TMP 4 Approved Instruments, Methods and Techniques

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Authority’s capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund); and
- leasing.

4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy.

4.3 Approved Techniques

- Forward dealing
- LOBOs - lender’s option, borrower’s option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

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

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

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI/PPP

Operating leases

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

4.5 Investment Limits

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

4.6 Borrowing Limits

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

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

5.1 Allocation of responsibilities

(i) Full Authority:

- receiving and reviewing reports on treasury management policies, practices and activities; and
- approval of annual strategy.

(ii) Audit Committee:

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Treasurer & Deputy Clerk

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

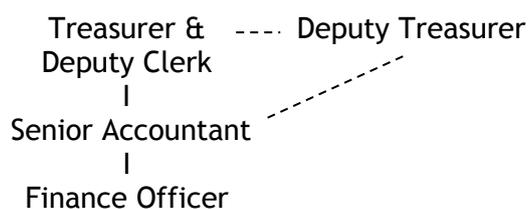
5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties should be undertaken by separate officers: -

Dealing	<ul style="list-style-type: none">• Negotiation and approval of deal.• Receipt and checking of brokers confirmation note against loans diary.• Reconciliation of cash control account.• Bank reconciliation.
Accounting Entry	<ul style="list-style-type: none">• Production of transfer note• Processing of accounting entry.
Authorisation/Payment of Deal	<ul style="list-style-type: none">• Entry onto system.• Approval and payment.

As can be seen at 5.3, the Authority does not have the same depth in the treasury department as a Council has. In practice, one person transacts all the dealing duties with a second person approving the bank reconciliation monthly. The same person transacts all the accounting entry duties and the entry onto the system of payments. A second person has to electronically approve all payments before they can be sent.

5.3 Treasury Management Organisation Chart



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

5.4.1. The Responsible Officer

The Responsible Officer is the person charged with professional responsibility for the treasury management function and in this Authority is the Treasurer & Deputy Clerk. This person will carry out the following duties:

1. recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
2. submitting regular treasury management policy, activity and performance reports;
3. submitting budgets and budget variations;
4. receiving and reviewing management information reports;
5. reviewing the performance of the treasury management function;
6. ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
7. ensuring the adequacy of internal audit, and liaising with external audit;
8. recommending the appointment of external service providers;
9. the Responsible Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments;
10. the Responsible Officer may delegate his power to borrow and invest to members of his staff. The Senior Accountant or the Finance Officer must conduct all dealing transactions, or staff authorised by the Responsible Officer to act as temporary cover for leave/sickness. All transactions must be authorised via the dealing sheet by at least two officers;
11. the Responsible Officer will make sure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible;
12. prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Responsible Officer to be satisfied, by reference to the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations; and

13. it is also the responsibility of the Responsible Officer to make sure that the Authority complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Senior Accountant

The responsibilities of this post will be: -

1. execution of transactions;
2. adherence to agreed policies and practices on a day-to-day basis;
3. maintaining relationships with counterparties and external service providers;
4. supervising treasury management staff;
5. monitoring performance on a day-to-day basis;
6. submitting management information reports to the Responsible Officer; and
7. identifying and recommending opportunities for improved practices.

5.4.3. The Monitoring Officer

The responsibilities of this post will be:

1. Ensuring compliance by the Responsible Officer with the treasury management policy statement and treasury management practices and that they comply with the law;
2. Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice; and
3. Giving advice to the Responsible Officer when advice is sought.

5.4.4. Internal Audit

The responsibilities of Internal Audit will be:

1. Reviewing compliance with approved policy and treasury management practices;
2. Reviewing division of duties and operational practice;
3. Assessing value for money from treasury activities; and
4. Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

In the absence of the Finance Officer, the Senior Accountant will perform the treasury functions.

5.6 Dealing Limits

There are no dealing limits for individual posts

5.7 List of Approved Brokers

Only one broker is currently used due to the limited number of transactions.

5.8 Policy on Taping of Conversations

It is not this Authority's policy to tape brokers conversations

5.9 Direct Dealing Practices

The Authority will consider dealing direct with counterparties if it is appropriate and the Authority believes that better terms will be available. At present, most deals are arranged directly. There are certain types of accounts and facilities where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.10 Documentation Requirements

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

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

1. Annual reporting requirements before the start of the year: -
 - a. review of the organisation's approved clauses, treasury management policy statement and practices; and
 - b. strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.
2. Mid-year review
3. Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Audit Committee and then to the full Authority for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Authority may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
 - a. Prudential and Treasury Indicators;
 - b. current Treasury portfolio position;
 - c. borrowing requirement;
 - d. prospects for interest rates;
 - e. borrowing strategy;
 - f. policy on borrowing in advance of need;
 - g. debt rescheduling;
 - h. investment strategy;
 - i. creditworthiness policy;
 - j. policy on the use of external service providers;
 - k. any extraordinary treasury issue; and
 - l. the Minimum Revenue Provision (MRP) strategy.
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

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

1. the Authority's risk appetite in respect of security, liquidity and optimum performance;
2. the definition of high credit quality to determine what are specified investments as distinct from non specified investments;
3. which specified and non specified instruments the Authority will use;
4. whether they will be used by the in house team, external managers or both (if applicable);
5. the Authority's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list;
6. which credit rating agencies the Authority will use;
7. how the Authority will deal with changes in ratings, rating watches and rating outlooks;
8. limits for individual counterparties and group limits;
9. country limits;
10. levels of cash balances;
11. interest rate outlook;
12. budget for investment earnings;
13. use of a cash fund manager (if applicable); and
14. policy on the use of external service providers.

6.4 The Annual Minimum Revenue Provision Statement

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

6.5 Policy on Prudential and Treasury Indicators

1. The Authority approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The Responsible Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Responsible Officer shall submit the changes for approval to the full Authority.

6.6 Mid-year review

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

1. activities undertaken;
2. variations (if any) from agreed policies/practices;
3. interim performance report;
4. regular monitoring; and
5. monitoring of treasury management indicators.

6.7 Annual Review Report on Treasury Management Activity

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

1. transactions executed and their revenue (current) effects;
2. report on risk implications of decisions taken and transactions executed;
3. compliance report on agreed policies and practices, and on statutory/regulatory requirements;
4. performance report;
5. report on compliance with Chartered Institute of Public Finance and Accountancy (CIPFA) Code recommendations; and
6. monitoring of treasury management indicators.

6.8 Management Information Reports

Key Performance Indicators will be prepared every quarter by the Senior Accountant and will be presented to the Performance, Policy and Resources Committee and the Audit Committee.

These reports will contain the following information:

- a) measurement of performance of investments;
- b) any non compliance with Prudential limits or other treasury management limits.

TMP 7 Budgeting, Accounting and Audit Arrangements

7.1 Statutory/Regulatory Requirements

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

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

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

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records.
- Maturity analysis of loans outstanding.
- Certificates for new long term loans taken out in the year.
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type.
- Calculation of loans fund interest and debt management expenses.
- Details of interest rates applied to internal investments.
- Calculation of interest on working balances.
- Interest accrual calculation.
- Principal and interest charges reports.
- Analysis of any deferred charges.
- Annual Treasury Report.
- Treasury Management Strategy Statement and Prudential and Treasury Indicators.
- Review of observance of limits set by Prudential and Treasury Indicators.
- Calculation of the Minimum Revenue Provision.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Management Team whilst a quarterly budget monitoring report goes to the Performance, Policy and Resources Committee. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

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

8.2 Bank Statements Procedures

The Authority receives monthly bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A formal bank reconciliation is undertaken on a monthly basis by the Finance Officer.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors by the due date and this effectively schedules the payments.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Finance Officer is responsible for monitoring the levels of debtors and creditors. Details are used to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

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

8.6 Practices Concerning Prepayments to Obtain Benefits

The Authority has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Responsible Officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

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

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

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

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation - for example, falsifying a document.

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

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

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Authority will do the following:

1. evaluate the prospect of laundered monies being handled by them;
2. determine the appropriate safeguards to be put in place;
3. require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness;
4. make all its staff aware of their responsibilities under POCA;
5. appoint a member of staff to whom they can report any suspicions. This person is the Money Laundering Reporting Officer;
6. in order to make sure compliance is appropriately managed, this Authority will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel; and
7. the officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Director of Resources & Strategy and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. In respect of treasury management transactions, there is a need for due diligence, however the Authority does not accept loans from individuals.

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

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

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Authority will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk.

All transactions will be carried out by CHAPS for making deposits or repaying loans, except PWLB loans where direct debit arrangements are in place.

TMP 10 Training and Qualifications

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

1. Treasury management staff employed by the Authority
2. Members charged with governance of the treasury management function

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

Additionally, training may also be provided on the job and it will be the responsibility of the Senior Accountant to make sure that all staff under his/her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, Chartered Institute of Public Finance and Accountancy (CIPFA), money brokers, etc.

10.2 Records of Training Received by Treasury Staff

The Human Resource & Development Officer will maintain records on all staff and the training they receive.

10.3 Statement of Professional Practice (SOPP)

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

10.4 Member training records

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

10.5 Members charged with governance

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

TMP 11 Use of External Service Providers

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

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

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

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

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

11.1.1 Banking Services

1. Name of supplier of service is the Co-operative Bank.
2. Regulatory status - banking institution authorised to undertake banking activities by the Financial Services Authority (FSA)
3. The branch address is:
4. Market Place
Spindles Centre
Oldham
OL1 1HE
5. Cost of service is variable depending on schedule of tariffs and volumes
6. Payments due monthly

11.1.2 Money-Broking Services

The Authority will use money brokers for temporary borrowing and investment and long term borrowing. The Authority has only a limited need for these services and therefore uses only one broker. The performance of the broker will be monitored by the Senior Accountant who will make any recommendations for change.

Name of broker is:
Martin Brokers (UK) Limited
25 Dowgate Hill
London
EC4R 2BB
And is regulated by the FSA

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

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

The performance of consultants will be reviewed by the Senior Accountant annually to check whether performance has met expectations.

1. Name of supplier of service is Capita Asset Services. Their address is
Sector Treasury Services Limited
40 Dukes Place
London
EC3A 7NH
Tel: 0871 664 6800
2. Regulatory status: Investment adviser authorised by the FSA

Other Consultancy services may be employed on short term contracts as and when required. A re-tendering exercise for this advice, to start on 1st April 2015, will be concluded during the year.

11.1.4 Credit Rating Agency

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

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12 Corporate Governance

12.1 List of Documents to be Made Available for Public Inspection

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

Treasury Management Policy Statement
Treasury Management Strategy Statement
Annual Investment Strategy
Minimum Revenue Provision policy statement
Annual Treasury Review Report
Treasury Management monitoring reports

Annual accounts and financial instruments disclosure notes
Annual budget
Capital Plan

Minutes of Authority/Committee meetings