East Lothian Council

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Additional information:

To be considered alongside Treasury Strategy Report at the Council Meeting being held on 24th February 2026

Authorised By	Sarah Fortune
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East Lothian Council

Treasury Management Practices

2026-2027

Contents

TMP1 TREASURY RISK MANAGEMENT

The responsible officer (S95 officer) as defined in 5.4.1 will:

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

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

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

East Lothian Council (the Council) regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements

1.1.1 Policy on the use of credit risk analysis techniques

The Council will use the MUFG Corporate Markets creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows:

Yellow	5 years*
Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5
Purple	2 years
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

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

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

2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management consultants will provide regular updates of changes to all ratings relevant to the Council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending criteria comprising maturity periods, type, group, sector, country and counterparty limits.
5. The status of counterparties will be monitored regularly. When ratings change counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the responsible officer, and if required new counterparties which meet the criteria will be added to the list.
6. The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings, it will therefore use other sources of information including: -
    - The quality financial press
    - Market data
    - Information on government support for banks and
    - The credit ratings of that government support
7. maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks * (UK Government collateral)	yellow	£5m	5yrs
Banks	purple	£5m	2 yrs
Banks	orange	£5m	1 yr
Banks	red	£5m	6 mths
Banks	green	£5m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker	Lloyds Bank	Unlimited	1 day #
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£5m	3yrs

	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds LVNAV	AAA	£5m	liquid
Money Market Funds VNAV	AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	£5m	liquid

Balances held overnight with the Councils bank are reviewed on a daily basis

8. Diversification: the Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
   - Maximum amount to be placed with any one institution - £5m
   - Group limits where a number of institutions are under one ownership – maximum of £10m
   - When setting minimum sovereign debt ratings, The Council will not set a minimum rating for the UK
   - Country limits – a minimum sovereign rating of AA- from Fitch or equivalent is required for an institution to be consider as approved counterparty.

Based on lowest available rating (as at 31st December 2025)

AAA	AA+	AA	AA-	A+
Australia	Canada	Abu Dhabi (AUE)	U.K.	Belgium
Denmark	U.S.A.	Finland		France
Germany		Qatar		
Netherlands				
Norway				
Singapore				
Sweden				
Switzerland				

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

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments.

Examples of ESG factors considered by credit rating agencies:

- **Environmental:** Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

- **Social:** Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

- **Governance:** Management structure, governance structure, group structure, financial transparency.

Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way.

The Council uses ratings from Fitch, Moody's and Standard & Poor's (S&P) to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

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

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

1.2 Liquidity Risk Management

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

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

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

The Treasury team will monitor the balance held in the Council's main bank accounts at the close of each working day.

1.2.2. Details of:

a. **Standby facilities**
   At the end of each financial day any unexpected surplus funds are held in the Council's main bank, as the Council receives interest on the group balance.
b. **Bank overdraft arrangements**
   The Council does not have an overdraft facility
c. **Short-term borrowing facilities**
   The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is 20% of total borrowing.
d. **Insurance/guarantee facilities**
   There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.
e. **Special payments**
   All payments not processed through BACS are paid through Treasury & Banking with prior notification required for payments over £100,000.

1.3 Interest Rate Risk Management

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

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

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

1.3.1. Details of approved interest rate exposure limits

Maturity structure of fixed interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
Over 40 years	0%	75%

Maturity structure of variable interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	50%
2 years to 5 years	0%	30%
5 years to 10 years	0%	20%
10 years to 20 years	0%	20%
20 years to 30 years	0%	20%
30 years to 40 years	0%	20%
Over 40 years	0%	20%

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

The responsible officer will adopt a pragmatic approach to changing circumstances as set out below:

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, then the portfolio position will be re-assessed. Any decisions will be reported through the mid-year or annual activity reports.

1.3.3. Interest rate exposure limits in percentage terms:

	Upper limit
fixed interest rate exposure based on net debt	100%
variable interest rate exposure based on net debt	40%

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

a. Forward dealing
Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than 5 working days forward the approval of the responsible officer is required.

b. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs are considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the responsible officer

c. Callable deposits
The Council will use callable deposits (cash type instruments) as part of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the schedule of Permitted Investments appended to the AIS.

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 detrimental impact on its budgeted income/expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

All investments and borrowing will be denominated in **sterling**.

As a result of the nature of the Council's business, the Council has an exposure to exchange rate risk from time to time (e.g. arising from the receipt of income or the incurring of expenditure in a currency other than sterling) these are exceptions and as such are taken at the rate on the day of receipt or payment

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

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

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

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

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

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

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

Rescheduling will be reported through the mid-year or annual activity reports.

1.5.2. Projected Capital Investment Requirements

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

In addition, the responsible officer will draw up a capital strategy report which will give a longer term view.

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

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

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the four following years and the impact these will have on Council Tax and HRA housing rent levels. It will also take into account affordability in the longer term beyond this five 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 Council will use the Definitions provided in the Prudential Code for borrowing (88), capital expenditure (89), capital financing requirement (90), commercial property (91) debt (92), financing costs (94), investments (95), net revenue stream (96), other long term liabilities (97), treasury management (98) and transferred debt (99).

1.5.4. Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Decisions taken to borrow in advance will form part of the next treasury management mid-year or annual activity report submitted. The report will justify the decision to borrow in advance, reflecting the strategy and original assumptions. Provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

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

- Details of the borrowing in advance undertaken.
- The borrowing within the context of the overall requirement of the authority over the medium term (covering both capital programme needs and the existing debt maturity profile).
- The anticipated timing (date or financial year) as to when those funds are expected to be required.
- The prudential indicator which demonstrates that, in the medium term, borrowing will only be for capital purposes.
- The anticipated rate/s of interest expected to apply if the borrowing is deferred until the time the funds are required.
- The anticipated rate/s of interest expected to be achieved by investing the sums borrowed in advance.
- Details of how interest rates have been forecast and an explanation of the reasonableness of such forecasts should be provided.
- Any third party information or advice used or sought in this regard.

- The risks associated with borrowing in advance and what controls are in place to manage that risk.
- A discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

1.5.5. PPP, Partnerships, ALMOs and Guarantees

Public Private Partnerships (PPP) and similar contracts are agreements to receive services, where the responsibility for making available the non-current assets needed to provide the services passes to the PPP contractor.

During 2002/03 the Council entered into a 32 year partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities, a new community centre and swimming pool and the associated facility management of the various sites. The Council makes an agreed payment each year which is increased annually in line with inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but is otherwise fixed. The PPP contract runs until 2035, at which time the facilities and all operational services revert to full council management. At this time responsibility for facilities management, maintenance, insurance etc. will all transfer back to the Council. Innovate East Lothian Limited has no right of renewal of the contract.

1.6 Legal and Regulatory Risk Management

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

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

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

1.6.1. References to Relevant Statutes and Regulations

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

- Part VII Local Government (Scotland) Act 1973
- Schedule III Local Government (Scotland) Act 1975
- The Local Government in Scotland Act 2003 Part 7 section 36
- SSI. 2003 No.134 (C.7) The Local Government in Scotland Act 2003 (Commencement No.1) Order 2003
- SSI. 2004 No.28 (C.1) The Local Government in Scotland Act 2003 (Commencement No.2) Order 2004

- SSI. 2004 No.29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004
- Finance Circular 4/2007 Guidance on proper accounting practices March 2007
- Finance Circular 5/2010 Investment of Money by Scottish local authorities 1.4.10
- SSI. 2010 No.122 Local Authority Investments (Scotland) Regulations 2010 (these regulations disapply the Trustee Investments Act 1961 (b) to the extent to which it applies to local authority investment of money, except in so far as that Act (or any provision of it) is applied by or under any other enactment)
- SSI. 2016 No. 123 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
- Finance circular 7/2016 (new arrangements for loans fund advances and repayments)
- SSI 119 Local Authority (Capital Finance and Accounting Scotland) (Coronavirus) Amendment Regulations 2021
- Requirement to set a balanced budget - Local Government (Scotland) Act 1973 section 108(2)and Local Government Finance Act 1992 section 93(3)
- Local Government (Scotland) Act 1973 section 95 – duty on the CFO to ensure proper financial administration.
- Local Government (Scotland) Act 1975 – power to maintain a loans fund.
- Scottish Office Circular 29/1975 – prescribes annual repayments of principal to the loans fund.
- Housing (Scotland) Act 1987 – requirement to maintain an HRA; schedule 15 sets out income and expenditure to be charged to it.
- Housing (Scotland) Act 1987 section 203(1) - definition of HRA capital expenditure.
- CIPFA Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities 2021
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2021
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners 2019
- 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
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority.)
- UK Money markets Code (this replaced the NIPS Code as from 26.4.17)
- Financial Services Authority's Code of Market Conduct
- The Council's Standing Orders (relating to Contracts)
- The Council's Financial Regulations
- The Council's Scheme of Delegation

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

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

Investing: Local Government in Scotland Act 2003, section 40
Borrowing: Schedule III Local Government (Scotland) Act 1975

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

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

Required Information on Counterparties

Lending shall only be made to counterparties who meet the approved counterparty criteria. This criteria has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

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

The Depute Chief Executive Resources and Economy shall take appropriate action with the Council, the Chief Executive, the Monitoring Officer to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Head of Corporate Support. The duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial (S95) Officer is the Depute Chief Executive Resources and Economy. The duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

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

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

The Council will therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.

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

1.7.1. Details of Systems and Procedures

Authority

- The Scheme of Delegation 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 Council's Financial Regulations.

Procedures

- Electronic banking procedures and/or procedures for making CHAPS and Faster/Standard payments.
- Requests should be made the day before payment needs to be made – although it is possible to make the payments on the same day, this allows for system issues and authorisation.
- Cut off times for authorisation are:-
- Faster/Standard Payments 16.30
- Chaps Payments 16.30
- Completed Bank Payment Templates are checked for the following:
- That they have been signed by an authorised signatory of the required FAS level and that all fields have been filled out.
- There should be backing documentation with a blue coding slip in most instances.
- Exceptions are – Payroll, EMAs and Clothing Grants, and payment requests where the ledger codes form part of the requesting memo.
- The relevant input method is determined by a member of the Treasury & Banking Team to ensure the most cost effective method is used to meet the payment deadline.
- Once the payment has been entered onto Lloyds Commercial Banking Online the request is passed to an Authoriser: Ann-Marie Glancy - Finance, Gareth Davies - Finance, Craig O'Donnell - Finance, Ailsa Milne – Finance, Kenny Christie - Revenues, and Sarah Fortune - Depute Chief Executive Resources and Economy for review, authorisation and release on Commercial Banking Online.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Master Debt Schedule
- A written acknowledgement of each deal is sent promptly 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 Treasury and Banking Officer 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 Treasury and Banking Officer for resolution.

Regularity and security

- Lending is only made to institutions meeting the approved counterparty criteria.
- The Cashflow prompts the Treasury & Banking team that money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institutional group (see 1.1.1) that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can either be authorised by a holder of a relevant FAS number for Commercial Banking online or by a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services (Lloyds Bank).
- Commercial Banking Online can only be accessed by having an individual login, a password and a security number generated by a personal card and reader with an individual PIN.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The Master Debt Schedule balances are reconciled to the balance sheet ledger codes at the end of each quarter and at the financial year end.
- A debt charge/investment income listing is produced every quarter when a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated on the individual spreadsheets for each instrument
- The individual spreadsheets and the PWLB payment schedule 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 yearly using information from the financial ledger and the Master Debt Schedule.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund and the Housing Revenue Account (HRA) recharge.

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

Make sure that all staff are familiar with the plan and that they are notified at the earliest possible time to allow plans to be made for staff to change normal work patterns/locations. Staff could work from another location provided they had a

PC/internet access which is required for Banking. Ensure access is available to files required on hard drive if possible. Recovery would be swift and could be back to normal within 7 hours for priority activities such as authorisation of payments to and from bank accounts either by home working or working from another site.
Ensure that notification to all relevant managers/suppliers is make as early as possible in respect of any delays which may arise
Ensure that Bank are advised of the Council's procedure in an emergency to authorise transactions to be made by other staff.
Ensure that written procedures are in place that can be followed for priority tasks
Some Staff from other sections within Corporate Finance have been trained to carry out banking tasks
Ensure that all staff are aware of any change to procedure and that only priority tasks are carried out
All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All electronic files are saved in network folders (not C or Z drives) and backed up on the server to enable files to be accessed from remote sites and by more than 1 team member.

1.7.3. Insurance Cover Details

Zurich Municipal
The Council has 'Fidelity' insurance cover with QBE European Operations. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £5m for any one event with an excess of £50,000 for any one event

Professional Indemnity Insurance
The Council also has a 'Professional Indemnity' insurance policy with Zurich Municipal £5m which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5m for any one event with an excess of £75,000 for any one event.

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

1.8 Market Risk Management

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

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

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

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

TMP 1 SCHEDULE 1 – Investment instruments to be used

The Council approves the following forms of investment instrument for use as permitted investments as set out in the following tables

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Cash type instruments

- Deposits with the Debt Management Account Deposit Facility (UK Government);
- Deposits with other local authorities or public bodies.
- Money Market Funds – LVNAV & VNAV
- Call account deposit accounts with financial institutions (banks and building societies);
- Term deposits with financial institutions (banks and building societies);
- UK Government Gilts and Treasury Bills.
- Supranational Bonds (e.g. World Bank)
- Certificates of deposits with financial institutions (banks and building societies)
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.).
- Corporate bonds.
- Bond funds.
- Ultra short dated bond funds
- Gilt funds
- Property funds.

Other investments

- Investment properties.
- Loans to third parties, including soft loans and loans made for service policy reasons
- Loans to a local authority company including loans made for service policy reasons
- Shareholdings in a local authority company.
- Non-local authority shareholdings.
- House Purchase Loans – Under Tenant Rights, etc. (Scotland) Act 1980 & section 214 of the Housing (Scotland) Act 1987

Unlimited investments

Regulation 24 (of the SSI 2010 No. 122 Local authority investments (Scotland) regulations 2010 and within the Code of Practice for Capital Finance) states that an investment can be shown as being ‘unlimited’ in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility (DMADF).** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government’s sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High credit worthiness banks and building societies.** See paragraph 1.1.1 for an explanation of this authority’s definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £5m can be placed with any one institution or group at any one time. The Council’s own banker (Lloyds Banking Group) may have sums greater than this held overnight.

Objectives of each type of investment instrument

Regulation 25 (of the SSI 2010 No. 122 Local authority investments (Scotland) regulations 2010 and within the Code of Practice for Capital Finance) requires an explanation of the objectives of every type of investment instrument which the authority approves as being 'permitted'.

1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility (DMADF).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term deposits with high credit worthiness banks and building societies.** See paragraph 1.1.1 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £5m can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

c) **Call accounts with high credit worthiness banks and building societies.** The objectives are as for 1b above but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. These tend to be medium to low risk investments, but will exhibit higher risks than categories a), b) and c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).

e) **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this Council is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b. above but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.

b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. These tend to be medium to low risk investments but will exhibit higher risks than categories a) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN-ENDED INVESTMENT COMPANIES (OEICS)

a. **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the Weighted Average Maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

c. **Ultra short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Low Volatility Net Asset Value (LVNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

d. **Gilt funds.** These are funds which invest only in UK Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF, but they do have an exposure to movements in market prices of assets held.

e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills.

a. **Treasury bills.** These are short term bills (up to 18 months but usually 9 months or less) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF, and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

b. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

c. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

d. **Sovereign bond issues (other than the UK Government) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

e. **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and d. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. OTHER

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

a. **Investment Properties.** These are non-service properties which are being held pending disposal or for a longer-term rental income stream.

b. **Loans to third parties, including soft loans**. These are service investments either at market rates of interest or below market rates (soft loans).

c. **Loans to a local authority company.** These are service investments either at market rates of interest or below market rates (soft loans).

d. **Shareholdings in a local authority company.** These are service investments.

e. **Non-local authority shareholdings.** These are non-service investments.

f. **House Purchase Loans.** These are loans that were made with regard to Tenant Rights, etc (Scotland) Act 1980 & section 214 of the Housing (Scotland) Act 1987 before the Acts were repealed.

Counterparty criteria

Surplus money in the Council's General Fund may only be advanced to another UK local authority, government guaranteed institution and third parties and local authority companies as included within the permitted investments. In addition to:

1. Any bank or financial institution that meets the following criteria: -

    (i) It falls into one of the groups of banks or financial institutions and appears in our treasury advisors credit rating matrix as approved, specifically a short-term rating F-1 (or better) and a long term rating of A- from Fitch (or equivalent)
    (ii) The Council's own bankers.

2. Any money market fund that meets the following criteria: -

    (i) It is a Sterling denominated fund domiciled within the EU as regulated by the Institutional Money Market Funds Association (IMMFA)
    (ii) It falls into one of the groups of banks, financial institutions or insurance companies and the institution concerned has a rating of AA- from Moody's <u>or</u> a rating of AAAmmf from Fitch or a rating of AAAm with Standard & Poors.

Table 1: permitted investments in house

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100%	6 mths
Term deposits – local authorities	--	term	no	100%	3 years
Call accounts – banks and building societies **	As counterparty criteria above	instant	no	100%	n/a
Term deposits – banks and building societies **	As counterparty criteria above	term	no	100%	5 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	As counterparty criteria above	term	no	20%	12 mths

1.2 Deposits with counterparties currently in receipt of government support/ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	As counterparty criteria above	term	no	100%	12 mths
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	As counterparty criteria above	term	no	20%	3 mths
Fixed term deposits with variable rate and variable maturities: - Structured deposits	As counterparty criteria above	term	yes	20%	3 mths

1.3 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investment s	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	5 yrs
UK Government Gilts	UK sovereign rating	Sale T+1	yes	20%	5 yrs
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	20%	5 yrs
Sovereign bond issues (other than the UK Government)	AAA	Sale T+1	yes	20%	5 yrs
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	20%	5 yrs

1.4 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	As counterparty criteria above	Sale T+0	Yes	**20%**	**5 yrs**
Corporate Bonds other	As counterparty criteria above	Sale T+3	Yes	20%	5 yrs

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.5 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	As counterparty criteria above	T+4	Yes	20%	5 yrs

5.3 TREASURY MANAGEMENT PRACTICE (TMP1): CREDIT AND COUNTERPARTY RISK MANAGEMENT

East Lothian Council Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or	These are considered quasi	Little mitigating controls required for	£unlimited and

public bodies **(Very low risk)**	UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	local authority deposits, as this is a quasi-UK Government investment. Non-local authority deposits will follow the approved credit rating criteria.	maximum 3 years.
c. Money Market Funds (MMFs) **(Low to very low risk)** LVNAV / VNAV	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£5m per fund
Type of Investment	**Treasury Risks**	**Mitigating Controls**	**Council Limits**
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£5m per fund
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day-to-day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.

f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium-to-low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day-to-day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria.	As shown in the counterparty section criteria above.

		Day-to-day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
Other types of investments			
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer-term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property-based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	As shown in the counterparty criteria above.
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third-party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	As shown in the counterparty criteria above.
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	As shown in the counterparty criteria above.
d. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	As shown in the counterparty criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
e. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£ as shown in the counterparty criteria above
f. House Purchase Loans	These are historical service investments which exhibit counterparty risk and are highly illiquid	Each loan to a council tenant required Member approval and each application was supported by the service rational behind the loan and the likelihood of partial or full default.	£ as shown in the counterparty criteria above

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

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

a. quarterly reviews carried out by the treasury management team
b. reviews with our treasury management consultants
c. annual review after the end of the year as reported to Audit and Governance Committee
d. a minimum of half yearly monitoring reports to Audit and Governance Committee
e. comparative reviews
f. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic reviews during the financial year

The Head of Finance holds a treasury management review meeting with the Treasury team every Quarter to review actual activity against the Treasury Management Strategy Statement (TMSS) and cash flow forecasts.
This will include:

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

2.1.2 Reviews with our treasury management consultants

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

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

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

a. total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement
b. borrowing strategy for the year compared to actual strategy
c. whether or not a decision was made to defer borrowing or to borrow in advance
d. comment on the level of internal borrowing and how it has changed during the year
e. assumptions made about interest rates
f. investment strategy for the year compared to actual strategy
g. explanations for variance between original borrowing and investment strategies and actual
h. debt rescheduling done in the year
i. actual borrowing and investment rates available through the year
j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives
k. the report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together will details of any remedial action take. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem.

l. the report shall include details of any review of long term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy.
m. compliance with Prudential and Treasury Indicators
n. other

2.1.4 Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA(Scotland) Treasury Management Forum Monthly Investment reports

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

The performance of borrowing may be measured against the following benchmarks: -

- 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 may be measured against the following benchmarks: -

a. in house investments
Average daily SONIA
Backward-looking compounded SONIA
Forward-looking SONIA

Performance will also be measured against other local authorities with similar portfolios.

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

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a three-year basis with the option to extend for 2 years. The process for advertising and awarding contracts will be in line with the Procurement Policy.

2.3.2 Banking services

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

2.3.3 Money-broking services

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

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

2.3.4 Consultants'/advisers' services

The Council's policy is to appoint full-time professional treasury management consultants and leasing advisory consultants.

2.3.5 Policy on External Managers

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

TMP 3 DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

The Treasury section has a Master Debt Schedule spreadsheet in which all investment and loan transactions are recorded. The following records will be retained

- Daily cash balance forecasts
- Money market rates obtained by telephone or email from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

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

3.1.3 Issues to be addressed

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

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

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

a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets to ensure that its capital and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
b) Less detailed evaluation will also be carried out over a longer period of 10 years to ensure that plans continue to be affordable, prudent and sustainable in the longer term.
c) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
d) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
e) 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
f) not borrow to invest primarily for financial return
g) not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so
h) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council
i) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose
j) ensure that treasury management decisions are made in accordance with good professional practice.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.
c) Ensure that any long-term treasury investment is supported by a business case.

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 Council's capital financing and surplus funds activities.
- managing cash flow.
- banking activities.
- leasing

4.2 Approved Instruments for Investments

These can be seen in TMP 1 above and are referenced in the Annual Investment Strategy. The latest version of the AIS/TMSS is lodged in Members Library.

4.2.1 Implementation of MIFID II requirements

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

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

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

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

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

4.3 Approved Techniques

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

4.4 Approved Methods and Sources of Raising Capital Finance

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

On Balance Sheet	Fixed	Variable
PWLB	●	●
EIB	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	
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
Developer Contributions

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 Executive Director for Corporate Resources has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation 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

Refer to the Treasury Management Strategy Statement and Prudential and Treasury Indicators. The latest version of the AIS/TMSS is appended to this document.

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

5.1 Allocation of responsibilities

(i) Full Council

- visibility and access to reports on treasury management policies, practices and activities
- approval of annual treasury management strategy.
- budget consideration and approval
- visibility and access to reports on the selection of external service providers and agreeing terms of appointment

(ii) Audit and Governance Committee

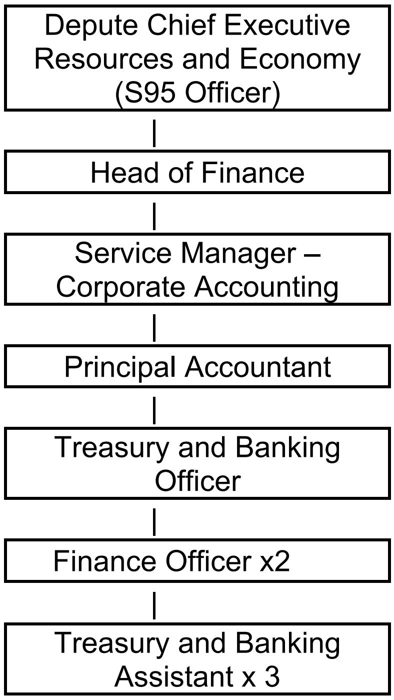
- responsibility for scrutiny
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- receiving and reviewing regular monitoring reports and acting on recommendations
- visibility and access to reports on the selection of external service providers and agreeing terms of appointment
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- approval of the division of responsibilities

5.2 Principles and Practices Concerning Segregation of Duties

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

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

5.3 Treasury Management Organisation Chart



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

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Depute Chief Executive Resources and Economy. This person will carry out the following duties: -

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting regular treasury management policy reports
c) submitting budgets and budget variations
d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.
i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Head of Finance, Service Manager-Corporate Accounting, Principal Accountant, Treasury and Banking Officer must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by either the Depute Chief Executive or the Head of Finance.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

5.4.2. Treasury and Banking Officer

The responsibilities of this post will be: -

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) supervising treasury management staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending
h) opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

i) ensuring that the system is specified and implemented
j) ensuring that the responsible officer reports regularly to the Council and/or Audit and Governance Committee on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – Head of Corporate Support

The responsibilities of this post will be: -

a) ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law
b) being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
c) giving advice to the responsible officer when advice is sought

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

a) reviewing compliance with approved policy and treasury management practices
b) reviewing division of duties and operational practice
c) assessing value for money from treasury activities
d) undertaking probity audit of treasury function

5.5 Absence Cover Arrangements

Staff will be authorised by the responsible officer to act as temporary cover for leave/sickness

5.6 Dealing Limits

The following posts are authorised to deal: -

- **Depute Chief Executive Resources and Economy (S95 officer)**
- **Head of Finance**
- **Service Manager – Corporate Accounting**
- Corporate Accountant
- Treasury and Banking Officer

There are no dealing limits for individual posts

5.7 Policy on Taping of Conversations

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

5.8 Direct Dealing Practices

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

- Business Reserve Accounts
- Call Accounts
- Money Market Funds

5.9 Settlement Transmission Procedures

For payments a transfer will be made through the Lloyds Commercial Banking Online to be completed by 3.00 pm on the same day.

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.

5.11 Arrangements Concerning the Management of Third-Party Funds

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

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

b) Mid-year review (or more frequent)

c) Quarterly monitoring or reviews

d) Annual review report after the end of the financial 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 5 years. This strategy will be submitted to the full Council for approval before the commencement of each financial year.

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

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement – not specified exactly in strategy, CFR is referred to
   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

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

6.3 The Annual Investment Strategy Statement

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

a) whether the CIPFA Treasury Management Code and the CIPFA Prudential Code have been adopted in full, or if not, provide an explanation
b) the Council's risk appetite in respect of security, liquidity and optimum performance
c) the definition of high credit worthiness
d) which instruments the Council will use (permitted investments) separately identified as relating to Common Good and Charitable Trusts
e) limits (by sum of money or percentage of the local authority's total investments) for each permitted investment relating to the Common Good. Alternatively an investment may be 'unlimited'
f) the objectives of each type of investment
g) the different types of risks that each permitted investment is exposed to
h) the controls in place for limiting those risks
i) explanations for an unlimited categorisation where this arises
j) whether they will be used by the in-house team, external managers or both (if applicable)
k) the Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties
l) which credit rating agencies the Council will use
m) how the Council will deal with changes in ratings, rating watches and rating outlooks
n) limits for individual counterparties and group limits
o) country limits
p) maximum value and maximum periods for which funds may be prudently invested
q) levels of cash balances and investments over the same time period (as a minimum) as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
r) interest rate outlook
s) budget for investment earnings
t) procedures for reviewing the holding of longer-term investments
u) details of how policies and practices will be scrutinised before being accepted and how they will be monitored and changed
v) use of a cash fund manager (if applicable)
w) policy on the use of external service providers
x) details as to where policies referred to in the Strategy may be obtained

6.4 Policy on Prudential and Treasury Indicators

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

6.5 Mid-year review

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

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report
d) regular monitoring
e) monitoring of treasury management indicators for local authorities

6.6 Quarterly Review

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

6.7 Annual Review Report on Treasury Management Activity

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

a) performance report – see TMP2.1.3
b) compliance report on agreed policies and practices, and on statutory/regulatory requirements
c) report on compliance with CIPFA Code recommendations
d) transactions taken and their revenue (current) effects
e) report on risk implications of decisions taken and transactions executed

6.8 Management Information Reports

Management information reports will be prepared every quarter by the Treasury and Banking Officer and will be presented to the Head of Finance

These reports will contain the following information: -
a) a summary of transactions executed and their revenue (current effects)
b) measurements of performance including effect on loan charges/investment income
c) degree of compliance with original strategy and explanation of variances
d) any non-compliance with Prudential limits or other treasury management limits

6.9 Publication of Treasury Management Reports

Reports available to the public through the council's website are:

Treasury Management Strategy Statement and Annual Investment Statement
Annual Treasury Report
Mid-Year Treasury Review.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

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

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Head of Finance 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 Head of Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors

- reconciliation of loans outstanding in the financial ledger to treasury management records
- maturity analysis of loans outstanding
- certificates for new long-term loans taken out in the year
- reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type
- calculation of loans fund interest and debt management expenses
- details of interest rates applied to internal investments
- calculation of interest on working balances
- interest accrual calculation
- principal and interest charges reports
- analysis of any deferred charges
- calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- review of observance of limits set by Prudential and Treasury Indicators
- external fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Quarterly Budget Monitoring Report

Quarterly Budget Monitoring reports are produced for the Head of Finance and reported to the Council Leadership Team and reported to Council. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.
A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

8.2 Bank Statements Procedures

The Council has access to daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.
A formal bank reconciliation is undertaken on a monthly basis by the Treasury and Banking Officer

8.3 Payment Scheduling and Agreed Terms of Trade with Creditors

Our policy is to pay creditors within 30 days of the invoice date, and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 14 days.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Service Manager – Corporate Accounting is responsible for monitoring the levels of creditors and debtors. Details are passed to the treasury team on a weekly basis to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be deposited in the Council's banking accounts. The officer will notify the treasury and banking team each morning of cash and cheques banked the previous day so that the figures can be taken into account.

8.6 Practices Concerning Prepayments to Obtain Benefits

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

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2012, 2015 and 2017

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

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

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness

d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is Service Manager – Internal Audit
f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Service Manager – Internal Audit and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

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

The Council does not accept loans from individuals.

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

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

9.6 Methodologies for Identifying Deposit Takers

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

All transactions will be carried out by BACS, Faster payment or CHAPS for making deposits or repaying loans.

TMP 10 Training and Qualifications

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

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

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a 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 Head of Finance to ensure 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, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

A record will be maintained recording all training given by treasury staff.

10.3 Record of Secondment of Senior Management

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

10.4 Statement of Professional Practice (SOPP)

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

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

10.5 Members training records

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

10.6 Members charged with governance

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

10.7 Experience and Qualifications of Treasury Staff

A schedule of the knowledge, experience and qualifications of current staff will be kept.

TMP 11 Use of External Service Providers

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

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

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

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

- the quality financial press
- market data
- information on government support for banks and
- the credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is the Lloyds Bank.

b) Regulatory status – banking institution authorised to undertake banking activities by the FCA

c) The branch address is:
25 Gresham Street
LONDON
EC2V 7HN

d) Contract commenced 01/04/2023 runs for 3(+1+1) years until 31/03/2028 at the latest.

e) Cost of service is variable depending on schedule of tariffs and volumes

f) Payments due monthly

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Treasury & Banking Team to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Executive Director of Council Resources (CFO)

See Appendix for list of brokers

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

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

The performance of consultants will be reviewed by the Head of Finance over the course of the contract to check whether performance has met expectations.

a) Name of supplier of the service is MUFG Corporate Markets. Their address is 65 Gresham Street, London, EC2V 7NQ Tel: 0207 204 7624
b) Regulatory status: investment adviser authorised by the FSA
c) Contract commenced 01/04/2024 and runs for 3+1+1 years

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

11.1.4 Credit Rating Agency

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

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

- Treasury Management Policy Statement
- Treasury Management Strategy Statement including the Annual Investment Strategy
- Annual Treasury Management Review Report including the Annual Investment Report
- Treasury Management monitoring reports (minimum half yearly)

- Annual accounts and financial instruments disclosure notes
- Annual budget
- 5 Year Capital Plan
- Capital Strategy

- Minutes of Council / Cabinet / Committee meetings

Appendix 1 Approved Brokers

BGC Partners
5 Churchill Place, London, E14 5HU
BGC Sterling Treasury Team – 0207 894 7742

King and Shaxon
1st Floor, 155 Fenchurch, London, EC3M 6AL
020 7929 8529

Tradition
Beaufort House
15 St. Botolph Street
London
EC3A 7QX.
020 7422 3566

Tullet Prebon/ICAP
| 135 Bishopsgate, London, EC2M 3TP |
Phone: +44 203 933 2287

MUFG Corporate Markets
Agency Treasury Services
Link Group | 6th Floor | 65 Gresham Street | London | EC2V 7NQ
+44 (0)207 204 7667

Imperial Treasury Services
Imperial House
4 Port Hill
Hertford
SG14 1PJ
01992945550