TEES VALLEY COMBINED AUTHORITY

Audit and Governance Committee
Agenda

Date: Friday 19th January 2018 at 3.30 pm

Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:
Chair - Councillor Nicola Walker (Middlesbrough Borough Council)
Vice Chair - Councillor Michael Dick (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Councillor Sandra Belcher (Hartlepool Borough Council)
Paul Bury (Independent member)

AGENDA

1. **Introductions**

2. **Apologies for absence**

3. **Declarations of interest**

4. **Minutes**
The minutes of the meeting held on 5th September 2017 and 1st December 2017 for confirmation and signature

5. **Treasury Management Strategy (2018/19)**
Report

6. **Treasury Management Practices (2018/19)**
Report

7. **General Reserve Policy**
Report

8. **Forward Plan**
Attached

9. **Date of the next meeting**
28th February 2018 at 10.00am – Cavendish House, Stockton-On-Tees

TEES VALLEY COMBINED AUTHORITY

Audit and Governance Committee

Agenda

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.
Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people please contact: Sharon Jones – 01642 524580 – sharon.jones@teesvalley-ca.gov.uk

TEES VALLEY COMBINED AUTHORITY

Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the Combined Authority's Constitution under the "Code of Conduct for Members" (Appendix 8).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

   a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
      i. a member of your family;
      ii. any person with whom you have a close association;
      iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
      iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
      v. any body as described in paragraph 3 b) i) and ii) below.

   b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
      i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
      ii. any body which:
         - exercises functions of a public nature;
         - is directed to charitable purposes;
         - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

TEES VALLEY COMBINED AUTHORITY

<u>Declarations of interest relating to the Councils' commercial role</u>

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

<u>Procedures for Declaring Interests</u>

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before

leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

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Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY

Friday 1st December 2017 at 10:00am

MEETING

ATTENDEES

Members		
Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Colin Fyfe	Independent Member	
Paul Bury	Independent Member	
Apologies for absence		
Andrew Lewis	Managing Director	TVCA
Officers		
Julie Gilhespie	Finance Director	TVCA
Andy Bryson	Finance Manager	SBC
Andrew Barber	Audit & Risk Manager	SBC
Sally Henry	Governance & Personnel Officer	TVCA
Also in Attendance		
Gareth Roberts	Senior Manager	Mazars LLP

The meeting was not quorate and therefore no decisions could be made. The meeting went ahead so members could discuss items that did not require a decision

INTRODUCTIONS

The Chair expressed her disappointment at the low attendance and lack of substitutes or apologies. She requested that this be fed back to individual members.

DECLARATIONS OF INTEREST

There were no interests declared.

MINUTES

The minutes of the meeting held on 5th September 2017 could not be considered as the meeting was not quorate.

Resolved that the minutes be considered at the next meeting.

INTERNAL AUDIT REPORT

Consideration was given to a report which provided an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2017/18.

Following a discussion, it was agreed that it would be useful, in future, to see a summary of recommendations and also an Executive Summary as a separate attachment to the papers.

Resolved that:-

- The Internal Audit Report be noted
- A summary of recommendations and an Executive Summary be included in future.

CORPORATE RISK REGISTER

Consideration was given to a report which presents the Tees Valley Combined Authority Corporate Risk Register at the end of the third quarter of 2017/18.

The Risk Register was discussed and it was agreed the Audit & Governance Committee should be included under the current controls for CO2 – failure to operate within TVCA constitution.

Resolved:-

- That the report be noted.
- Audit & Governance be included under current controls for Risk Ref CO2.

EXTERNAL AUDIT ANNUAL LETTER

Consideration was given to the External Audit Annual Letter. Members saw comments at the September meeting of the Audit & Governance meeting.
It was noted that 2 out of the 3 meetings of the Audit & Governance Committee have not been quorate.

Resolved that the External Audit Annual Letter be noted.

EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report from Mazars' which provides the progress in delivering their responsibilities as the Combined Authority's

External Auditors.
The report highlights key emerging national issues and developments which may be of interest to the Committee members.

Resolved that the External Audit Progress Report be noted.

TREASURY MANAGEMENT STRATEGY (2016/17) MID-TERM REVIEW

Consideration was given to a report informing members of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy which was approved by Cabinet on 31st January, 2017.

The Committee were advised that Arlingclose, the Authority's Treasury Management Advisors, are willing to undertake member training session on Treasury Management. This will be scheduled in for the New Year.

Resolved that:-

- The Treasury Management Strategy Mid-Term Review be noted.
- A training session for Committee members will be arranged.

GENERAL RESERVES

It was agreed that a further meeting of the Audit & Governance Committee be convened early in the New Year to discuss the report on General Reserves.

DATE OF NEXT MEETING

A meeting will be convened in January 2018 to discuss General Reserves. The meeting will incorporate a training session on Treasury Management.

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Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY

Tuesday 5th September 2017 at 2.00pm

MEETING

ATTENDEES

Members

Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Cllr Michael Dick (Vice Chair)	Redcar & Cleveland Borough Council	R&CBC
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Alan Coultas	Darlington Borough Council	DBC
Colin Fyfe	Independent Member	
Paul Bury	Independent Member	

Apologies for absence

Cllr Charles Johnson	Darlington Borough Council	DBC
Cllr Sandra Belcher	Hartlepool Borough Council	MBC

Officers

Julie Gilhespie	Finance Director	TVCA
David New	Senior Finance Manager	SBC
Andy Bryson	Finance Manager	SBC
Andrew Barber	Audit & Risk Manager	SBC
Sarah Brackenborough	Governance Manager	TVCA

Also in Attendance

Mark Kirkham	Partner	Mazars LLP
Gareth Roberts	Senior Manager	Mazars LLP

AGC 13/17 **INTRODUCTIONS**

Introductions from Committee members and officers were made. Since the last meeting Tees Valley Combined Authority has appointed a Finance Director, Julie Gilhespie who was introduced to the Committee as the lead officer for all future Audit and Governance Committee meetings.

AGC 14/17 **DECLARATIONS OF INTEREST**

There were no interests declared.

AGC 15/17 **MINUTES**

Consideration was given to the minutes of the meeting held on 28th June 2017

Resolved that the minutes be confirmed and signed as a correct record.

AGC 16/17 **TERMS OF REFERENCE**

The recommended terms of reference for the Committee have been drafted based on suggested terms of reference published by CIFPA. The terms of reference need to be agreed by the Committee.

Resolved that the recommended Terms of Reference are agreed but that these should be mapped to the Committee's Forward plan to ensure alignment.

AGC 17/17 **INTERNAL AUDIT ANNUAL REPORT**

Consideration was given to a report showing the current position in respect of the 2016/2017 audit plan and the results of the work undertaken.

The Committee requested that target completion dates be added to the Internal Audit plan for future meetings.

Resolved that the internal Audit report is noted and target completion dates will be added to the plan where possible.

AGC 18/17 **EXTERNAL AUDIT COMPLETION REPORT AND VALUE FOR MONEY OPINION**

Consideration was given to the external audit completion report for 2016/17

The detail of the audit completion report was shared and it was confirmed that the auditors are satisfied with the draft financial report. There are no adverse matters that are required to be brought to the attention of the Committee.

The Committee thanked the Auditors for the work carried out to ensure that a positive external audit report was received.

Resolved that the External Audit completion report is noted.

AGC 19/17 **STATEMENT OF ACCOUNTS**

Consideration was given to a report regarding the statement of accounts for 2016/17. The accounts have been completed in accordance with the “Code of Practice on Local Authority Accounting in the United Kingdom 2016/17” which is prepared under International Financial Reporting Standards.

Resolved that the Statement of Accounts report be noted

AGC 20/17 **ANNUAL GOVERNANCE STATEMENT**

The Accounts and Audit Regulations 2015 require authorities to conduct a review at least once a year of the effectiveness of their governance framework and produce an Annual Governance Statement**.**

Consideration was given to a report regarding the draft Annual Governance statement for 2016/17. The Statement of accounts and Annual Governance statement will be presented for Cabinet approval on 29th September. Following Cabinet approval the Governance Statement will be signed by the Mayor and the Managing Director.

Resolved that The draft Annual Governance statement is noted

AGC 21/17 **RISK MANAGEMENT STRATEGY AND CORPORATE RISK REGISTER**

Consideration was given to a report regarding the Combined Authority Risk Management Strategy and the Corporate Risk Register at the end of the second quarter of 2017/18.

It was explained that the strategy sets Tees Valley Combined Authority’s approach to risk management and integrates the requirements of the Single Pot assurance Framework.

Discussion took place around the strategy and the high risks showing on the register. The Committee requested that further detail on risk appetite is made available to them to explain further the approach to this.

Resolved that:

- The Committee approve the Tees Valley Combined Authority Risk Management Strategy
- The Committee considered the contents of the Risk register

AGC 22/17 **TREASURY MANAGEMENT STRATEGY ANNUAL REPORT**

Consideration was given to a report informing of the performance against the Treasury Management and prudential indicators set in the Treasury Management Strategy.

Discussion took place regarding the link between risk appetite and investment limits. The Committee also requested a list be provided showing key documents, when these will be published and what approval route they take.

Resolved that:

- The report be noted
- A timetable of key documents is provided to the Committee

AGC 23/17 **WORK PROGRAMME**

Consideration was given to the work programme for the Committee.

Resolved that the work programme is noted.

DATE OF NEXT MEETING

The date of the next meeting to be held at Cavendish House on 1st December 2017 is noted.

AGENDA ITEM 5

REPORT TO THE TEES VALLEY AUDIT & GOVERNANCE COMMITTEE

19th JANUARY 2018

REPORT OF FINANCE DIRECTOR

TREASURY MANAGEMENT STRATEGY 2018/19

SUMMARY

This report informs Members of the proposed 2018/19 Treasury Management Strategy (TMS) for Tees Valley Combined Authority.

RECOMMENDATIONS

Members note the Treasury Management Strategy as presented in the report and provide any comments and recommendations before approval at Cabinet.

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in February and August last year and published its new 2017 editions in early 2018.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Revised strategy: In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remains relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

Local Context

On 31st December 2017, the Authority had £97m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	0	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**	**0**
Less: Other debt liabilities	0	0	0	0	0
Borrowing CFR	**0**	**0**	**0**	**0**	**0**
Less: Usable reserves	87,316	94,465	72,369	79,191	102,203
Less: Working capital	-9,258	-7,107	-5,829	-4,361	-4,245
Investments	**78,058**	**87,358**	**66,540**	**74,830**	**97,958**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. This statement is on the basis of the Authority's current commitments, but it should be noted that one of the Authority's main purposes is to deliver its Investment Plan which means that new commitments are being made on a continuous basis. Consequently, the level of Investments that the Authority holds is likely to fluctuate significantly from this forecast as new commitments are made and it is likely that at some point during this period, the Authority will look to borrow to fund its investment plans.

Any decision to borrow will be made on a project by project basis and all of these decisions will be made by Cabinet.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

Borrowing Strategy

The primary legislation which established Combined Authorities made provision for them to receive borrowing powers, akin to those already in place for other local authorities. In the 2016 Budget, the Chancellor of the Exchequer confirmed his intention to enact this provision using secondary legislation. A draft of the 'The Tees Valley Combined Authority (Borrowing)

Regulations 2018' Statutory has been agreed by Cabinet and is currently seeking approval from the constituent authorities. Once this is achieved it will be laid before Parliament for final approval. Any decisions to borrow are subject to this approval.

The balance sheet forecast in table 1 shows that the Authority does not expected to borrow in 2018/19 but has approved a borrowing commitment of £6.5m in relation to the TAMP scheme. This commitment gives the Authority to borrow to support this project if and when it needs to.

The Authority currently has an active pipeline of 31 investment proposals amounting to £152m which are currently under review. If borrowing is required for any of these schemes further reports will be presented to Cabinet for consideration.

The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £100 million set in this strategy.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans, change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Teesside Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority when borrowing will investigate all available sources of finance, such as local authority loans and bank loans, to achieve the most favourable rates.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 7 months, the Authority's investment balance has ranged between £78m and £131 million, and levels are expected to increase in the forthcoming year as spending plans are developed.

Objectives: Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the **security and liquidity** of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and low returns from short-term unsecured bank investments, the **Authority aims to diversify into more secure and/or higher yielding asset classes during 2018/19**. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, with local authorities and money market funds. This diversification will represent a **substantial change in strategy** over the coming year.

Approved counterparties: If the strategy is approved the Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 20 years	£15,000,000 50 years	£7,500,000 20 years	£7,500,000 20 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 25 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 15 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000 3 years	£15,000,000 4 years	£15,000,000 10 years	£7,500,000 4 years	£7,500,000 10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000 25 years	£7,500,000 5 years	£7,500,000 5 years
Pooled funds	£10m per fund				

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £5m per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, Combined Authority, Police and Crime Commissioner, Fire Authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£60m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£20m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£80m

Investment limits: The Authority's revenue reserves available to cover investment losses will be set at £677,000 on 31st March 2018. The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million Based on table 4 below. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£15,000,000
Any group of pooled funds under the same management	£37,500,000
Negotiable instruments held in a broker's nominee account	£37,500,000
Foreign countries	£15,000,000
Registered providers	£37,500,000
Unsecured investments with building societies	£15,000,000
Loans to unrated corporates	£15,000,000
Money Market Funds	£75,000,000

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses through the **new business finance facility**, or as equity investments.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Investments that are not part of Treasury Management Activity

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£60m	£40m	£20m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, or other appropriate organisations.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £100 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

<u>Financial Implications</u>

The budget for investment income in 2018/19 is £200,000 based on an average investment portfolio of £90 million. As the Authority is not expected to enter into any borrowing arrangements in 2018/19 the budget for debt interest is £0 million. If actual levels of investments and borrowing differ from those forecast, performance against budget will be correspondingly different.

<u>Prudential Indicators and Minimum Revenue Provision (MRP)</u>

The Authority has also regulatory requirements with regards to the publishing of prudential indicators and the MRP Statement. These are attached at ***Appendix C***.

<u>Other Options Considered</u>

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Finance Director believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B – Existing Investment Portfolio Position

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Bank Of Scotland	5,000,000	0.50%	06-Dec-17	06-Mar-18
Bank of Scotland	5,000,000	0.36%	06-Oct-17	06-Apr-18
Coventry BS	5,000,000	0.44%	11-Oct-17	11-Apr-18
Goldman Sachs	5,000,000	0.38%	29-Dec-17	06-Apr-18
Santander	10,000,000	0.40%	12-Oct-16	95 Day Notice
Standard Life	10,000,000	Variable	06-Oct-16	Money Market Fund
Federated	10,000,000	Variable	06-Oct-16	Money Market Fund
Blackrock	4,000,000	Variable	07-Dec-16	Money Market Fund
Blackpool BC	3,000,000	0.27%	11-Sep-17	11-Jan-18
Leeds	5,000,000	0.40%	19-Oct-17	19-Apr-18
Newham	5,000,000	0.30%	30-Oct-17	29-Mar-18
Northamptonshire	5,000,000	0.55%	05-Oct-17	05-Jul-18
Slough	5,000,000	0.38%	28-Sep-17	28-Feb-18
Stirling	3,000,000	0.50%	23-Nov-17	23-May-18
Suffolk County	5,000,000	0.45%	05-Dec-17	05-Mar-18
Surrey Heath	2,000,000	0.50%	22-Nov-17	22-May-18
Merthyr Tidfil	5,000,000	0.50%	22-Dec-17	23-Apr-18
Telford & Wrekin	5,000,000	0.27%	07-Sep-17	08-Jan-18
	97,000,000	**0.41%**		

Appendix C - Prudential Indicators 2018/19

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Business Growth	6,989	1,500	1,750	1,750
Research, Development, Innovation & Energy	6,600	13,400	9,000	0
Education, Employment & Skills	4,288	5,332	0	0
Transport	19,866	18,877	16,352	13,952
Infrastructure	4,883	0	0	0
Development & Evaluation	6,883	0	0	0
Total Expenditure	**49,509**	**39,109**	**27,102**	**15,702**
Government Grants	49,509	39,109	27,102	15,702
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing	0	0	0	0
Total Financing	**49,509**	**39,109**	**27,102**	**15,702**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
General Fund	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**

The CFR is forecast to remain at £0 over the next three years as capital expenditure is fully financed through grants.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	0	0	0	0
Finance leases	0	0	0	0
PFI liabilities	0	0	0	0
Transferred debt	0	0	0	0
Total Debt	**0**	**0**	**0**	**0**

As all current planned capital expenditure is fully financed total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	0	100	100	100
Other long-term liabilities	0	0	0	0
Total Debt	**0**	**100**	**100**	**100**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Limit £m**	**2018/19 Limit £m**	**2019/20 Limit £m**	**2020/21 Limit £m**
Borrowing	10	125	125	125
Other long-term liabilities	0	**0**	0	0
Total Debt	**10**	**125**	**125**	**125**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	0	0	0	0

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Codes recommendations.

FINANCIAL IMPLICATIONS

1. Treasury Management Investment activity during 2018/19 is budgeted to generated income of £200k.

RECOMMENDATIONS

2. Members note the content of the report and provide any comments and recommendations to Cabinet.

LEGAL IMPLICATIONS

3. None.

RISK ASSESSMENT

4. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

5. Not applicable.

Julie Gilhespie
Director of Finance

Name of Contact Officer: Andy Bryson
Post Title: Chief Accountant (Stockton Council)
Telephone Number: 01642 528850
Email Address: andy.bryson@stockton.gov.uk

AGENDA ITEM 6

REPORT TO THE TEES VALLEY AUDIT & GOVERNANCE COMMITTEE

19th JANUARY 2018

REPORT OF FINANCE DIRECTOR

TREASURY MANAGEMENT PRACTICES 2018/19

SUMMARY

This report informs Members of the proposed 2018/19 Treasury Management Practices (TMP's) for Tees Valley Combined Authority.

RECOMMENDATIONS

Members note the Treasury Management Practices as presented in the report and provide any comments and recommendations before approval at Cabinet.

<u>Introduction</u>

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Authority has adopted the revised 2011 Code. The Code recommends the creation and maintenance of:

- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices comprise:

TMP 1: Risk management

TMP 2: Best Value and Performance measurement

TMP 3: Decision-making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Staff Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

This is the first set of TMP's for TVCA which have been produced by the Director of Finance in line with best practice. The TMP's and supporting schedules are attached to this document

The schedules supporting these practices are at a higher level giving an overview of the processes to be followed. The detail specifying the systems and routines to be employed and the records to be maintained in fulfilling the Authority's treasury functions.

FINANCIAL IMPLICATIONS

1. There are no financial implications in accepting and recommending this report to Cabinet.

RECOMMENDATIONS

2. Members note the content of the report and provide any comments and recommendations to Cabinet.

LEGAL IMPLICATIONS

3. None.

RISK ASSESSMENT

4. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

5. Not applicable.

Julie Gilhespie
Director of Finance

Name of Contact Officer: Andy Bryson
Post Title: Chief Accountant (Stockton Council)
Telephone Number: 01642 528850
Email Address: andy.bryson@stockton.gov.uk

TEES VALLEY COMBINED AUTHORITY
TREASURY MANAGEMENT PRACTICES

The "**Treasury Management in the Public Services: Code of Practice and cross sectoral guidance notes "**(the Code) identifies twelve areas where statements of Treasury Management Practices (TMP's) should be developed to implement the full requirements of the Code.

		Page
TMP 1	**Treasury risk management**	**2**
TMP 2	**Best Value and performance measurement**	**4**
TMP 3	**Decision-making and analysis**	**4**
TMP 4	**Approved instruments, methods and techniques**	**4**
TMP 5	**Organisation, clarity and segregation of responsibilities and dealing arrangements**	**4**
TMP 6	**Reporting requirements and management information arrangements**	**5**
TMP 7	**Budgeting, accounting and audit arrangements**	**5**
TMP 8	**Cash and cash flow management**	**6**
TMP 9	**Money laundering**	**6**
TMP 10	**Staff training and qualifications**	**6**
TMP 11	**Use of external service providers**	**6**
TMP 12	**Corporate governance**	**7**

TMP1 TREASURY RISK MANAGEMENT

"The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving 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] Credit and counter party risk management

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. It 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 counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivate arrangements.

[2] Liquidity risk management

The Authority 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 which are necessary for the achievement of its business/service objectives.

This authority 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, where it is under borrowed or to finance future debt maturities.

[3] Interest rate risk management

The Authority 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 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.

[4] Exchange rate risk management

The Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
.

[5] Refinancing risk management

The Authority 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 organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counter parties 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."

[6] Legal and regulatory risk management

The Authority 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 counter party policy under *TMP1.1 Credit and counter party risk management*, it will ensure that there is evidence of counter parties' 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 Authority 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."

[7] Fraud, error and corruption, and contingency management

The Authority 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.

[8] Price risk management

The Authority 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.

[9] Inflation risk

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

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

The Authority is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document."

TMP3 DECISION MAKING AND ANALYSIS

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document."

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in *TMP1 Risk management*.

The Authority has reviewed its classification with financial institutions under MIFID II and has registered as a professional client with relevant organisations.

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

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

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

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

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The Authority (i.e. full Board) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation’s treasury management policy statement and TMPs.

The board will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

The authority should report the treasury management indicators as detailed in their sector specific guidance notes.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and The Authority will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management, TMP2 Best value and performance measurement, and TMP4 Approved instruments, methods and techniques*. The form which The Authority's budget will take is set out in the schedule to this document. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of The Authority's accounts is set out in the schedule to this document.

The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The Authority will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1[2] Liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter parties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 STAFF TRAINING AND QUALIFICATIONS

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Authority recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review, and it will ensure, where feasible and necessary, that a spread of service providers is used to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

The Authority has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business.

TMP12 CORPORATE GOVERNANCE

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honest, integrity and accountability.

The Authority had adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by The Authority.

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TMP1 RISK MANAGEMENT

1.1 LIQUIDITY

1.1.1 Cash Flow

The treasury management section will maintain, on a daily basis, a cash flow projection showing;

- all known income and expenditure
- all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

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

The Treasury Management section shall seek to ensure that there is nil balance in the Authority's main bank account at the close of each working day, in order to minimise the amount of bank overdraft interest payable, and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim. However detailed contingency plans are also available to allow overdraft facilities of up to £.0.25m. .

1.2 INTEREST RATE

1.2.1 Interest Estimates

- The treasury management section will maintain detailed forward projections showing estimates of the amount of interest to be received (from approved instruments) and of interest paid (from long term borrowings).

- Interest rate estimates shall be arrived at using market intelligence, derived from reputable city institutions, together with practical experience and knowledge of treasury management staff.

1.2.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates. Details can be located in the annual Treasury Management Strategy.

Policies concerning the use of financial derivatives for interest rate management

Stockton Council is not permitted to use financial derivatives for interest rate management.

1.3 EXCHANGE RATE

1.3.1 Approved criteria for managing changes in exchange rate levels

a) As a result of the nature of the Organisation's business, the Organisation may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Organisation will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Organisation will eliminate all foreign exchange exposures as soon as they are identified.

b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Organisation has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

c) Stockton Council has no exposure to currencies other than sterling.

d) Stockton Council is not permitted to use financial derivatives in exchange rate risk management.

1.4 CREDIT AND COUNTERPARTY POLICIES

1.4.1 Criteria to be used for creating/managing approved counter party lists/limits

1. The Director of Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counter parties and shall construct a lending list comprising time, type, sector and specific counter party limits.

2. Treasury management staff will add or delete counter parties to/from the approved counter party list in line with the policy on criteria for selection of counter parties. This will be one on the approval of the Director of Finance. The complete list of approved counter parties will be included in the Treasury Management Strategy, Mid Term Report and Annual Report.

3. The primary criteria used in the selection of counter parties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.

4. The Authority’s Treasury Management Advisors provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.

5. Credit ratings will be used as supplied from one or more of the following credit rating agencies:-

   Fitch
   Standard & Poor's
   Moody's Investors Services

6. Limits will be as set within the annual Treasury Management Strategy reported to the Board.

1.4.2 Approved methodology for changing limits and adding/removing counter parties

Credit ratings for individual counter parties can change at any time. The Director of Finance is responsible for applying the stated credit rating criteria in the Treasury Management Strategy for selecting approved counter parties, and will add or delete counter parties as appropriate to/from the approved counter party list when there is a change in the credit ratings of individual counter parties or in banking structures e.g. on mergers or takeovers.

The Director of Finance will also adjust lending limits and periods when there is a change in the credit ratings of individual counter parties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.4.1.

1.5 REFINANCING

The Prudential Code requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years”.

To that end the Authority will set annual prudential indicators and then proceed to operate within those boundaries, thus showing that all decisions taken adhere to the above.

Other Considerations;

- A maturity profile should be prepared and maintained covering all the authority's long-term borrowings.

- All refinancing of loans should be at the discretion of the Director of Finance.

- Any premature repayment or refinancing of existing loans may have a premium attached, which may have a revenue impact. Any such transactions will be at the discretion of the Director of Finance.

1.6 LEGAL AND REGULATORY

1.6.1 References to relevant statutes and regulations

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Authority.

1.6.2 Procedures for evidencing the organisation's powers/authorities to counter parties

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

a) A Treasury Management Strategy, stating the overriding principles and objectives of its treasury management activities; and

b) The Annual Investment Strategy.

1.6.3 Required information from counter parties concerning their powers/authorities

The authority will contract with 3rd parties who are approved institutions under the Local Government and Housing Act 1989.

Approved brokers will need to be regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

1.6.4 Statement on the organisation’s political legislative or regulatory risks

The Authority recognises that future political, 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 authority.

1.7 FRAUD, ERROR AND CORRUPTION

1.7.1 Details of systems and procedures to be followed

The processes involved in the treasury management functions should be clearly documented as set out in *TMP3 Decision making and analysis and in TMP 5 Organisation, clarity and segregation of responsibilities and dealing arrangements.*

1.7.2 Emergency and contingency planning arrangements

The authority will follow the manual system to place funds in the event of an electronic system failure.

1.7.3 Insurance cover details

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.7.4 List of authorised officers

The treasury manager shall maintain a list of officers authorised to deal on behalf of Tees Valley Combined Authority in respect of investing short-term cash balances.

1.7.5 Chaps transactions

The purchasing, payments and income manager shall authorise officers to have access to the Nat West Web Banking System and shall determine which functions each officer can carry out. Only those officers so authorised can transmit money via the Chaps system, using unique passwords.

1.8 MARKET RISK MANAGEMENT

The Authority 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 sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

In evaluating treasury management options, the average interest rate for both borrowing and investments is considered.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT CONTRACTS

2.2.1 Banking services

Banking services will be retendered or renegotiated every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.2 Money-broking services

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

2.2.3 Consultants'/advisers' services

- The Authority's policy is to use the advice provided by appointed full-time professional treasury management consultants, to the authority.

- Consultancy services are retendered or renegotiated every 3 years.

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

Benchmarking tests are detailed below are used in the performance evaluation.

2.4 BENCHMARK AND CALCULATION METHODOLOGY

Performance measured against Annual Treasury Management Strategy targets.

2.4.1 Debt management

Average rate on all external debt
Average maturity of external debt

2.4.2 Investment

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate)

TMP3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/ TECHNIQUES

3.1.1 Records to be kept

The following records will be kept and maintained for audit scrutiny:

a) Third party confirmation and brokers confirmation of deposits and borrowings.
b) Copy of electronic submission of payments, manually signed as checked for accuracy and authorised.
c) Cash flow transaction records
d) Borrowing Analysis
e) Year-end reconciliation of all borrowing and lending.

3.1.2 Processes to be pursued

a) Cash flow analysis.
b) Maturity analysis.
c) Ledger reconciliations
d) Review of borrowing requirement.
e) Comparison with prudential indicators.
f) Monitoring of projected loan charges and interest and expenses costs.
g) Review of opportunities for debt rescheduling.

3.1.3 Issues to be addressed

3.1.3.1 In respect of every decision made the organisation will:

a) Above all be clear about the nature and extent of the risks to which the organisation 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 organisation’s objectives and protect the organisation’s interests and to deliver good housekeeping.
d) Ensure that third parties are judged satisfactory in the context of the organisation’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 organisation will:

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

b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
d) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

In respect of investment decisions, the organisation 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 organisation to changes in the value of its capital.

TMP4 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 organisation's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing;
- the use of external fund managers;
- managing the underlying exchange rate risk associated with the organisation's business activities.

4.2 APPROVED INSTRUMENTS FOR INVESTMENT

Instruments approved under The Local Authority (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments, the most commonly used being:

- Deposits with banks and building Societies or local authorities up to 365 days
- Non-specified deposits with banks and building societies or local authorities.
- Pooled Funds (including Triple A rated Money Market Funds both with a constant and variable net asset value).
- Registered Provides (including providers of social housing).
- Deposits with Government (including HM Treasury, Debt Management Office and Local Authorities).

4.3 APPROVED METHODS AND SOURCES OR RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the council has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Director of Finance.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

4.4 INVESTMENTS THAT ARE NOT PART OF THE TREASURY MANAGEMENT ACTIVITY

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
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TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

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5.2 **Principles and practices concerning segregation of duties**

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5.7 **List of approved brokers**

5.8 **Policy on brokers' services**

5.9 **Policy on taping of conversations**

5.10 **Direct dealing practices**

5.11 **Settlement transmission procedures**

5.12 **Documentation requirements**

5.13 **Arrangements concerning the management of third-party funds**

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS

5.1.1 Delegation of Powers

a) Board

- The limits required by Housing & Finance Act 1989
- Approval of Treasury Management Policy Statement
- Approval of Treasury Management Strategy
- Approval of Annual and Mid Term Reports

b) Stockton Council

- Stockton Council (SBC) is authorised under delegated powers to undertake Treasury Management Functions on behalf of Tees Valley Combined Authority.
- Segregation of duties detailed below are as per SBC processes

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Director of Finance will ensure there is always adequate segregation of duties in all transactions, with a minimum of 2 officers required to make payments and appropriate senior officers to release payments.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

Director of Finance (TVCA)

Senior Finance Managers (SBC)

Chief Accountant/Treasury Manager (SBC)

Senior Finance Technicians (Treasury Management) (SBC)

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Director of Finance

1. Director of Finance:

   a) Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
   b) Submit reports as and when required by the Board
   c) Authorise and maintain TMPs and Schedules
   d) Set submit and monitor budgets
   e) Review the performance of the treasury management function and promote best value reviews
   f) Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function

g) Ensure the adequacy of internal audit and liaise with external audit
h) Recommend the appointment of external service providers where appropriate.
i) Approve and authorise investment deals (within dealing limits – see 5.6)
j) Determine and approve short term borrowing up to a period of 6 months and to a limit of £5m

2. The Director of Finance has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

3. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance to be satisfied, by reference to Legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.

4. Director of Finance may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be authorised by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Senior Finance Managers (SBC).

1. Approve and authorise investment deals (within dealing limits – see 5.6)
2. Release Chaps payments

5.4.3 Chief Accountant/Treasury Manager (SBC)

The treasury responsibilities of this post will be:-

- To assist Director of Finance in the formation of the Treasury Strategy.
- Identify and recommend opportunities for improved practices
- Supervise Treasury Management staff
- Monitor performance
- Review the performance of treasury management functions and promote best value reviews
- Implement Treasury Management Strategy
- Approve and authorise investment deals (within dealing limits – see 5.6)
- Check interest calculations
- Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Senior Finance Technician (SBC)

Responsibilities:-

- Calculate daily cash balances
- Enter transmission of monies via Nat West Web Banking system

- Select Brokers from approved list
- Adhere to agreed policies and practices on a day to day basis
- Submit management information reports
- Maintain cash flow projections
- Third party loan confirmation
- Ensure counter party limits are not exceeded
- Ensure there is a clear segregation between officers for negotiating/ approving and closing deals.

5.5 ABSENCE COVER ARRANGEMENTS

The authority will ensure that there is adequate cover for all absences.

5.6 DEALING LIMITS

Dealings can be carried out providing that transactions are within limits determined by the Authority and the Director OF Finance as detailed in the table below;

Investment Dealing Limits	
Director of Finance (TVCA)	As per limits set within the treasury management strategy
Senior Finance Mangers (SBC)	Monetary Limits set within TMS / 365 days and under investment horizon
Chief Accountant / Treasury Manager (SBC)	Up to £5m / 6 months and under investment horizon.

5.7 LIST OF APPROVED BROKERS/ONLINE BROKER

Prebon Brokers (UK) plc
BGC International Brokers Ltd
ICAP Brokers Ltd
Tradition Brokers
Martin Brokers
I Deal Trade (Arlingclose Trading Platform)

5.8 POLICY ON BROKERS’ SERVICES

The authority will use brokers for its temporary transactions. The Treasury Manager will evaluate the services provided by Brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

The authority will not tape telephone conversations

5.10 DIRECT DEALING PRACTICES

All deals are carried out with brokers / I trade Platform with the exception of Bank of England and Nat West overnight deposit account.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Nat West Web Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and card operated pin number. A manual back up facility will be in place to cover system failure.

5.12 DOCUMENTATION REQUIREMENTS

Cash Dealing sheet
Cashflow summary
Loan Record
Dealing sheet
Brokers confirmation
Counter party confirmation
Invoice signed/coded to budget
Nat West Bankline confirmation sheet

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority does not manage funds on behalf of any third parties.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

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

2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates.

3. The Treasury Management Strategy is concerned with the following elements:

    - the prospects for interest rates;
    - the limits placed by The Authority on treasury activities
    - the expected borrowing strategy;
    - the expected temporary investment strategy;
    - the expectations for debt rescheduling;
    - any extraordinary treasury issue.

4. The Treasury Management Strategy 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.

6.2 POLICY ON INTEREST RATE EXPOSURE

1. As required by section 45 of The Local Government and Housing Act 1989, the council must approve before the beginning of each financial year the following treasury limits:

    - The overall borrowing limit
    - The amount of the overall borrowing limit which may be outstanding by way of short-term borrowing
    - The maximum proportion of interest on borrowing, which is subject to variable rate interest.

2. The Corporate Director of Resources is responsible for incorporating these limits into the annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Corporate Director of Resources shall submit the changes to Cabinet for recommendation to Council.

6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be completed after the end of the financial year. This report will include the following:-

a) details of the previous year's treasury management activities
b) the outcome against agreed measures of performance
c) resources involved in carrying out treasury management functions
d) report on compliance with CIPFA code
e) explanation of future actions.

6.4 MANAGEMENT INFORMATION REPORTS

a) A mid-year review of the strategy statement
b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting.

TMP7 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 England and Wales that is recognised by statute as representing proper accounting practices.

7.2 ACCOUNTING PRACTICES AND STANDARDS

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

7.3 AUDIT ARRANGEMENTS

Stockton Borough Council will ensure that its audits and those charged with regulatory review have access to all information and papers supporting the activities of the treasury management function.

TMP8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS, CONTENT AND FREQUENCY

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

8.2 BANK STATEMENTS PROCEDURE

The authority will aim to monitor and reconcile the bank statements on a daily basis, with a monthly formal reconciliation completed and authorised by two officers.

8.3 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Authority will without unreasonable delay be paid into the Authority's bank account. Regular security collection rounds will bank all funds.

TMP9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS

The Authority will only accept loans from individuals, where the funds are transferred via another bank account, which is domiciled in the UK, either electronically, or through cheque. All other loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on (www.fca.org.uk).

9.2 METHODOLOTY FOR IDENTIFYING SOURCES OF DEPOSIT

All deposits are reconciled and identified on a daily basis. The source of each deposit is investigated in order to credit the appropriate funds within the main accounting system.

TMP10 STAFF TRAINING AND QUALIFICATIONS

10.1 DETAILS OF APPROVED TRAINING COURSES

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS AND ADVISERS

11.1.1 Banking services

a) Name of supplier of service is Nat West. The branch address is High Street Stockton
b) Contract commenced June 2015 and runs for a period of 5 years
c) Cost of service – a schedule of charges is agreed at the beginning of the contract

11.1.2 Money-broking services

Name of supplier of service:

- Prebon Brokers (UK) plc
- BGC International Brokers Ltd
- ICAP Brokers Ltd
- Tradition Brokers
- Martin Brokers
- I Deal Trade (Arlingclose Trading Platform)

11.1.3 Consultants'/advisers' services

The authority has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business. This contract commenced on the 1st January 2017 and will run for a period of 3 years with an option to extend for a further 2 years.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

TMP12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

In furtherance of a robust corporate governance policy, the following documents are available for public inspections:

1. Treasury Management Strategy
2. Treasury Management Practices
3. Annual Treasury Management Report
4. Annual Statement of Accounts
5. Annual Budget

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 7

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

19th JANUARY 2018

REPORT OF FINANCE DIRECTOR

GENERAL RESERVES

SUMMARY

This report sets out the background and methodology used in relation to the holding of reserves by the Combined Authority.

RECOMMENDATIONS

It is recommended that the Audit & Governance Committee note the approach taken to establish the general reserves value required.

DETAIL

1. The Local Government Act requires all Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement in the Medium Term Financial Plan. Within the statutory and regulatory framework, it is the responsibility of the chief finance officer to advise on the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use.

2. CIPFA and the Local Authority Accounting Panel consider that Authorities should establish reserves based on the advice of their chief finance officers. It is stated that Authorities should take into account all the relevant local circumstances when making a judgement upon the levels of reserves they will hold.

3. When reviewing the medium term financial plan and preparing the annual budget the Combined Authority is required to consider the establishment and maintenance of reserves. There are two main type of reserves – earmarked reserves and general reserves.

4. Earmarked reserves are a build-up of funds to meet known or predicted future requirements, in terms of the Combined Authority the earmarked reserves held relate to grant funds and investment income held in order to meet the requirements of the Combined Authorities investment plan.

5. It is a requirement for the Combined Authority to hold a general reserve which can be used as a contingency to cushion the impact of unexpected events or emergencies. This reserve can also be used as a working balance to help to cushion the impact of uneven cash flows and avoid unnecessary borrowing.

6. Although there are no specific rules regarding the level of general reserves required there is a generally accepted level of 3% of annual expenditure to be held in the general reserve. Unlike tradition Local Authorities, the Combined Authority expenditure can change significantly from year to year as commitments to fund projects are made. This makes considering one year's expenditure in isolation an inappropriate benchmark for setting reserves. As expenditure is assessed over the investment plan period, it is proposed that the average expenditure across the investment plan period is used when calculating the level of general reserves. In addition to this the Combined Authority acts as a "post box" for funds from Government which are then passed onto Local Authorities, therefore we hold no risk in respect of these sums and as such are excluded from the calculation.

7. Using the above methodology it is calculated that a general reserve of £962,000 is to be established for the financial year 2018/19. Currently there is £650,000 held in the general reserve therefore an increase of £312,000 is required. Due to increased levels of returns from investments in the current financial year it is proposed that these additional funds will be used to top up the general reserve to the required level.

8. The Combined Authority will continue to monitor the estimated expenditure across the medium term and the risks associated with the associated functions. The policy will be reviewed on an annual basis in line with the preparation of the budget and review of the medium term financial plan.

FINANCIAL IMPLICATIONS

9. Note the increase in the general reserves held by the Combined Authority to £962,000 for 2018/19 which has been incorporated into the budget paper presented to cabinet.

LEGAL IMPLICATIONS

10. None

RISK ASSESSMENT

11. This reserves report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

12. None

Name of Contact Officer: Julie Gilhespie
Post Title: Finance Director
Telephone Number: 01642 524400
Email Address: Julie.gilhespie@teesvalley-ca.gov.uk

TEES VALLEY COMBINED AUTHORITY

Tees Valley Combined Authority Audit & Governance

Forward Plan 2017/18

Standing Items

Minutes from the Previous Meeting
Announcements from the Chair
Forward Plan
Date and Venue of the Next Meeting

Date	**Venue**	**Item / Responsible Officer**
28th February 2018 at 10am	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report External Audit Strategy Memorandum (Plan) Internal Audit Charter & Audit Plan Treasury Management Strategy 2018/19 Anti-fraud & Corruption Agreement Work Programme 2018/19

Contacts:
Sharon Jones – Governance and Scrutiny Officer
Tel – 01642 524580
Email – Sharon.jones@teesvalley-ca.gov.uk