

TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES 2019-20

Revised January 2019

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for Isle of Wight Council treasury operations are referenced below:

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Introduction:

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in December 2017. The Code requires setting out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is now no longer a requirement to formally adopt the Treasury Management Code, but instead the Authority is now required by law to have regard to the Code.

Treasury Management is defined by CIPFA as

The management of the Authority's investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks.

'Investments' in the definition above covers all the financial assets of the Authority, as well as other non-financial assets which the Authority holds primarily for financial returns, including but not limited to investment property portfolios. Such non-financial assets are not managed as part of the Authority's normal treasury management or under treasury management delegations, but they nonetheless require appropriate investment and risk management under the Code; a separate Treasury Management Practice (TMP 13) in this document is therefore included, specific to these investments.

The Code identifies three key principles

- (1) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
- (2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds
- (3) They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

- (1) The council will create and maintain, as the cornerstones for effective treasury management
 - a. A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - b. Suitable treasury management practices (TMPs), 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 content of the policy statement and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

- (2) The council delegates that the Audit committee will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- (3) The full committee of the council is responsible for the production and approval of the Capital Strategy, and as such the Audit Committee may also set the detailed treasury management policies, whilst being clear that overall responsibility remains with full council
- (4) The council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to Director of Finance and Section 151 Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management

The Treasury Management Practices (TMPs) comprise:

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance
TMP13	Non-Treasury Investments (Investments that are not part of Treasury Management Activity)

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the council's treasury functions.

TMP1: RISK MANAGEMENT

The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The Director of Finance and Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. They 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 council'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 as schedules below.

TMP1(1) Credit and counterparty risk

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

Principle

The council will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited. It will limit its treasury management investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* listed in the schedule below. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Schedule

Criteria to be used for creating/managing approved counterparty lists/limits	<p>The Director of Finance and Section 151 Officer is responsible for setting prudent criteria and the council's treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by the Audit Committee as part of the Treasury Management Strategy</p> <p>The council's treasury management advisors will advise on credit policy and creditworthiness related issues. The council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on at least a quarterly basis.</p> <p>This assessment will include consideration of credit ratings from all the main credit ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support where applicable, resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities).</p> <p>Investment limits are set by reference to the lowest long-term rating from the agencies and other relevant factors, including external advice. The council will also take into account information on corporate developments and market sentiment towards investment counterparties.</p> <p>The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.</p> <p>Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)</p>
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	Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
Approved methodology for changing limits and adding/removing counterparties	The Director of Finance and Section 151 Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.
Risk management: (a) creditworthiness deteriorates below the minimum criteria (b) ratings are placed on review for possible downgrade	<p>Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then</p> <ul style="list-style-type: none"> • 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 other existing investments with the affected counterparty <p>Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known.</p> <p>The policy in (b) will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.</p>
Counterparty list and limits	The council will use the list of named counterparties provided by its Treasury Management advisers which is reviewed on a periodic basis. The most recent listing will be saved on the Treasury Management shared drive.
Details of credit rating agencies' services and their application	<p>The council considers the ratings of the main credit ratings agencies when making investment decisions. Credit rating agency information is just one of a range of measures used to assess the creditworthiness of institutions.</p> <p>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.</p>
Description of the general approach to collecting and using information other than credit ratings for counterparty risk assessment	<p>The council's treasury advisor, Arlingclose, provides timely information on counterparties in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as share price information.</p> <p>Arlingclose also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.</p> <p>In addition, the Director of Finance and Section 151 Officer and other staff with responsibility for treasury management activities read quality financial press for information on counterparties.</p>
Country, sector and group listings of counterparties and the overall limits applied to each, where appropriate	<p>Investments will be shown against total group exposure, total country exposure and total sector exposure.</p> <p>Group limits will be set for the above, in terms of monetary value, where appropriate. Group limits for organisations under the same ownership will be set at the same level as the lead institution in that group.</p>

TMP1(2) Liquidity Risk

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

Principle

The council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Schedule

Cash flow and cash balances	The council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling daily and monthly cash flow forecast. The forecast is compiled on using the most up to date information that is available to the Treasury team in order to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments.
Short term investments	The council also uses various money market funds and call accounts to manage its liquidity requirements. These are named on the council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the council's investment strategy.
Temporary Borrowing	Temporary borrowing up to one year (364 days) through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the council before the start of each financial year.
Bank overdraft arrangements and standby facilities	The council has an authorised overdraft limit with its bankers Lloyds of £250,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive.
Borrowing in advance of need	The council may need to 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 council may be exposed to the risk of both the loss of the borrowed sums, and also that investment and borrowing rates may change during the intervening period. These risks will be managed as part of the council's overall treasury risk management. The total amount borrowed will not exceed the authorised borrowing limit as set in the prevailing Investment strategy. The maximum period between borrowing and expenditure is as determined by the capital strategy up to a maximum of 3 years.

TMP1(3) Interest Rate Risk Management

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

Principle

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

It will achieve this by the prudent use of its approved 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 subject to the consideration and, if required, approval of any policy or budgetary implications.

Schedule

Proportions of fixed/variable rate debt/interest,	<p>Borrowing/investments may be at a fixed or variable interest rate.</p> <p>In setting its forward Treasury Strategy on an annual basis, the council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The proportion of fixed and variable rate debt will be determined as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The proportion will be kept under review on a regular basis.</p>
Trigger points and other guidelines for managing changes to interest rate levels	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>The council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.</p> <p>Alternatively, the council may consider forward starting loans where the interest rate is agreed and fixed in advance, but the cash is received in later years. This would enable certainty of cost be achieved without suffering a 'cost of carry' in the intervening period.</p> <p>Interest rate forecasts are provided by the <u>council's advisors</u> and are closely monitored by the Technical Finance Manager. Variations from original estimates and their impact on the council's debt and investments are notified to the Audit Committee as necessary.</p> <p>For its investments, the council also considers dealing from forward periods dependent upon market conditions. The council's counterparty term limits will apply and will include the forward period of the investment.</p>
Negative interest rates	<p>Should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.</p>

TMP1(4) Exchange Rate Risk Management

Exchange Rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted

burden on the council's finances against which the council has failed to protect itself adequately.

Principle

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

Schedule

Exchange Rate risk management	<p>This council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.</p> <p>If the council has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered, and professional advice sought.</p> <p>At the present time statute prevents the council borrowing in currencies other than sterling.</p>
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TMP1(5) Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

Principle

The council 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.

Investments over one year	Where balances are expected to be invested for more than one year, the council 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.
Contractual obligations linked to inflation	The council will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

TMP1(6) Refinancing Risk Management

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

Principle

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

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

Schedule

Projected capital investment requirements	<p>Five-year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contribution, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.</p> <p>As required by the Code, the council will undertake an Options Appraisal exercise to evaluate the best capital expenditure financing route.</p> <p>The council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement (CFR) and Liability Benchmark.</p>
Debt maturity profiling, policies and practices	<p>The council will maintain through its treasury system Logotech, reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing.</p> <p>To assist with long-term borrowing decision making the council creates, with advice and assistance from its treasury advisor, a 'Liability Benchmark' which forecasts the need to borrow over the medium- to longer-term, taking into account usable reserves and working capital projections.</p> <p>Based on the output of the Liability Benchmark and the council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the council's Prudential Indicators and the annual Treasury Management Strategy.</p> <p>The avoidance of bunching of loan maturities will reduce the risk of having to refinance at a time when interest rates are unfavourable to the council.</p> <p>Where the lender to the council is a commercial body, the council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p>
Policy on LOBO call options	<p>The council's debt portfolio includes a loan borrowed on a Lender's Option Borrower's Option (LOBO) basis.</p> <p>The call dates for the LOBO loan are noted within the procedure notes file and are referenced to the LOBO documentation.</p> <p>Prior to each call date, the council will evaluate alternative funding sources for comparable interest rates/maturities. This will be discussed at the quarterly treasury meeting.</p> <p>If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the council will thoroughly evaluate the new terms and additionally seek advice from the council's advisor.</p> <p>It is important to remain within the timescale for the council to exercise its option should the call be made, but not be rushed into a decision.</p>
Policy concerning limits on revenue consequences of capital financings	<p>The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium-term forecasts.</p>

TMP1(7) Legal and Regulatory Risk Management

Legal and Regulatory risk is the risk that the council itself, or an organisation with which it is dealing in its

treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the council suffers losses accordingly.

Principle

The council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the council, particularly with regard to duty of care and fees charged.

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

Schedule

References to relevant statutes and regulations	<ul style="list-style-type: none"> • The treasury management activities of the council shall comply fully with legal statute and the regulations of the council. These are: • CIPFA's Treasury Management Code of Practice and accompanying Guidance Notes • CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities. • CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments. • CIPFA Standard of Professional Practice on Treasury Management • The Local Government Act 2003 • The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments • Pensions, England and Wales - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 • Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement (published by MHCLG, Sept 2016) • The MHCLG's statutory Guidance on Minimum Revenue Provision (MRP) • The MHCLG's Guidance on Local Government Investments in England The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883 • LAAP Bulletins • Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards) • Accounts and Audit Regulations 2003, as amended together with MHCLG's Guidance • The Localism Act 2011 • The Bank of England's 2017 Money Markets Code (which replaces the former Non-Investment Products Code) • Council's Constitution including: <ul style="list-style-type: none"> ○ Standing Order relating to Contracts ○ Financial Regulations ○ Scheme of Delegation
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Procedures for evidencing the organisation's powers/authorities to counterparties	<p>The council's Financial Regulations contain evidence of the power/authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the full council.</p> <p>The council will confirm, if requested to do so by counterparties, the powers and authorities under which the council effects transactions with them.</p> <p>Where required, the council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>
Required information from counterparties concerning their powers/authorities	<p>Investments shall only be made with institutions on the council's authorised lending list or in securities which meet the council's approved credit criteria.</p> <p>The council will only undertake borrowing from approved sources listed in TMP4 <i>Approved instruments, methods and techniques</i>.</p>
Statement on the organisation's political risks and management of the same	<p>Political risk is managed by:</p> <ul style="list-style-type: none"> • adoption of the CIPFA Treasury Management Code of Practice • adherence to Corporate Governance (TMP12 <i>Corporate Governance</i>) • adherence to the Statement of Professional Practice by the Director of Finance and Section 151 Officer • the roles of the Scrutiny Committee

TMP1(8) Fraud, error and corruption, and contingency management

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

Principle

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

Schedule

Details of systems and procedures to be followed, including Internet services	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in TMP5 <i>Organisation, clarity and segregation of responsibilities, and dealing arrangements</i>.</p> <p>1. <u>Electronic Banking and Dealing</u></p> <p>(a) Banking: The council's online banking service provided by Lloyds is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows:</p> <p><u>System Administrators</u></p> <ul style="list-style-type: none"> • Capital Accountant • Accountant – Corporate & Policy <p><u>Officers who can authorise payments</u></p> <ul style="list-style-type: none"> • Assistant Director of Finance • Technical Finance Manager • Principal Accountant (Corporate) • Senior Finance Business Partner – Children's Services • Senior Finance Business Partner – Adult Social Care • Finance Business Partner • Pension Fund & Treasury Management Accountant
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	<p><u>Other End Users</u></p> <ul style="list-style-type: none"> • Treasury team • Income Reconciliation Team <p>(b) Access to the council's treasury management system, Logotech is limited to those officers listed below, each having a separate log-on and password.</p> <ul style="list-style-type: none"> • Technical Finance Manager • Pension Fund & Treasury Management Accountant • Trainee Management Accountant • Capital Accountant (administrator) • Accountant – Structure, Data Quality & FOI <p>1. Access to the council's online money market portal provided by ICD is limited to those officers listed below, each having a separate log-on and password. These also are reviewed at least 6 monthly or as necessary</p> <ul style="list-style-type: none"> • Assistant Director of Finance • Technical Finance Manager • Principal Accountant (Corporate) • Senior Finance Business Partner – Children's Services • Senior Finance Business Partner – Adult Social Care • Finance Business Partner • Pension Fund & Treasury Management Accountant • Trainee Management Accountant • Accountant – Structure, Data Quality & FOI <p>Access to these systems are reviewed at least every 6 months, or as necessary.</p> <p>Full procedure notes covering the day-to-day operation of the online banking system and the treasury management system are documented and included in the <u>Procedure notes file</u>.</p> <p>2. <u>Standard Settlement Instructions (SSIs)</u>: a list is maintained of named officers who have the authority to transact loans and investments, and this list is provided to:</p> <ul style="list-style-type: none"> ○ Brokers and counterparties with whom the council deals direct ○ PWLB and Debt Management Agency Deposit Facility. ○ Money Market Funds <p>3. <u>Payment Authorisation</u>:</p> <ul style="list-style-type: none"> • Payments can only be authorised by agreed signatories of the council, the list of signatories having previously been agreed with the council's bank. • Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts, or their nominated custody account. • Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements. • Each payment requires two signatories from the list of officers who can authorise payments, in order for it to be processed.
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Verification	<p>Loans and investments will be maintained in a spreadsheet <u>register and the treasury management system</u> which will include fees and brokerage paid.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> <p>When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.</p>
Substantiation	<ol style="list-style-type: none"> 1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end 2. Working papers are retained for audit inspection 3. The bank reconciliation is carried out monthly from the bank statement to the general ledger
Internal Audit	Internal Audit carry out an annual review of the treasury management function including probity testing. See TMP7 <i>Budgeting, accounting and audit arrangements</i> .
Emergency and contingency planning arrangements	<ol style="list-style-type: none"> 1. All treasury systems, apart from Logotech and the Lloyds commercial online banking system, are retained on the council's network. Daily back-ups are taken and maintained, and network back-ups can be used by the ICT to restore files, if necessary. 2. Backups for Logotech are carried out by the provider as part of the contract and include a daily electronic backup to an appropriate medium for off-site storage. 3. Temporary off-site working facility: All of the officers who are able to authorise payments and the Treasury team are able to work from other sites using council IT equipment. 4. Electronic Banking System Failure: Emergency procedures have been agreed with Lloyds, for instance manual CHAPS payments can be made and balances can be provided over the phone. 5. The Business Continuity Plan is maintained by the Accountant – Corporate and Policy and an electronic copy is kept independently of the council's IT network.
Insurance cover details	The council has Fidelity Guarantee cover up to £10 million. Details of the provider and cover are held by the Insurance Officer, in the Insurance Department.

TMP1(9) Price Risk Management:

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

Principle

The council will seek to ensure that its stated treasury management policies and objectives will not be

compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule

<p>Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate</p>	<p>The council may consider an investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors.</p> <p>The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the council's annual investment strategy.</p>
<p>Accounting for unrealised gains/losses</p>	<p>The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the CIPFA Accounting Code of Practice.</p> <p>When first adopting IFRS 9, the new accounting standard from FY 2018/19, the council will elect to account for individual investments in "equity instruments" at fair value through other comprehensive income (FVOCI), which is very similar to the available for sale accounting. Investments purchased after the transition to IFRS 9 may also be elected to FVOCI upon acquisition.</p>

TMP2: PERFORMANCE MEASUREMENT

The council is committed to the pursuit of value for money 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 council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. CIPFA supports the use of risk benchmarks in measuring treasury management performance. The performance of the treasury management function will be measured using the criteria set out below.

Schedule

Policy concerning methods for testing value for money	<p>Best value reviews will include the production of plans to review the way services are provided by</p> <ul style="list-style-type: none">• Challenging• Comparing performance• Consulting with other users and interested parties• Applying competition principles <p>In order to pursue continuous improvement in the way the council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p> <p>The council is a member of the CIPFA benchmarking club, and Arlingclose, the council's treasury management advisors, also provide benchmarking against their client base.</p>
Policy concerning methods for performance measurement	<ul style="list-style-type: none">• Performance measurement at the council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Capital Strategy, Treasury Management Strategy and the council's Prudential Indicators and to enhance accountability• Prudential Indicators are specific to the council and are not intended as a comparator between authorities• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the council's agreed strategy, i.e. the council will avoid hindsight analysis. <p>Any comparison of the council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:</p> <ul style="list-style-type: none">(i) allow the council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and(ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. <p>In drawing any conclusions, the council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>

<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the council will be carried out as part of the budget monitoring reports to Audit Committee on at least a six-monthly basis.</p> <p>On a quarterly basis the Treasury Management Group meets to review the activities over the last quarter and to look at any changes that are required to the Treasury Management Strategy or the Prudential Indicators.</p> <p>The Treasury Management Group is comprised of:</p> <ul style="list-style-type: none"> • the Director of Finance and S151 Officer • Assistant Director of Finance • Technical Finance Manager • Principal Accountant (Corporate) • Senior Finance Business Partner – Children's Services • Senior Finance Business Partner – Adult Social Care • Finance Business Partner • Pension Fund & Treasury Management Accountant <p>The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the Prudential Indicators set prior to the commencement of the financial year and any in-year amendments.</p> <p>The council is a member of CIPFA Treasury benchmarking club. The club enables comparison of performance with other authorities for both its investments and borrowings. Data is provided by the council quarterly for comparison.</p> <p>The council's Treasury Management advisers review the existing debt portfolio on a regular basis and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.</p> <p>The council participates in the Treasury Management Advisor's quarterly investment benchmarking as well as the Treasury Management Advisor's annual Balance Sheet and Debt benchmarking.</p>
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<p>Methodology to be employed for measuring the performance of the council's treasury management activities</p>	<p>Treasury management activity is reviewed quarterly against strategy and prevailing economic and market conditions through the treasury management monitoring report which is presented to the Treasury Management Group</p> <p>The report will include:</p> <ol style="list-style-type: none"> Current net debt position including details of any loans made to the Isle of Wight Pension Fund. Maturity Profile of Gross Debt Position CFR Funding Ratio (gross borrowing as a % of the Loans CFR) The effect of new borrowing and/or maturities on the above The effect of any debt restructuring on the debt portfolio An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period) Total investments including average rate, credit and maturity profile The effect of new investments/redemptions/maturities on the above A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy Daily bank balances: any major deviations from the target bank balances
<p>Benchmarks and calculation methodology with regard to risk and return: debt management and investment</p>	<p>Treasury Management Costs Costs are split into Debt Management, Investment Management and Other. Investment Management is then shown as cost per £m invested, and Debt Management Costs per £m value of debt.</p> <p>Investment returns are compared to the 7-day rate or the Bank of England base rate</p> <ul style="list-style-type: none"> Internally managed investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. <p>Debt Management</p> <ul style="list-style-type: none"> CFR Funding Ratio (gross borrowing as a % of the Loans CFR) gross and net Borrowing; Leverage Ratio (gross borrowing as a proportion of net borrowing) gross debt compared to authorised and operational limits average rate on gross borrowing vs weighted average maturity average rate on external debt borrowed in financial year average period to maturity of external debt average period to maturity of new loans in financial year ratio of PWLB and market debt (beginning and end of period) ratio of fixed and variable rate debt (beginning and end of period)

<p>Policy concerning methods for testing value for money in treasury management</p>	<p>The treasury management function will be the subject of ongoing analysis of the value for money it adds in support of the council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the council adheres to its Contract Standing Orders. These require that:</p> <ul style="list-style-type: none"> a) for placing a contract with a value below £10,000, one quote and service delivery proposals are generally obtained b) for placing a contract with a value between £10,000 - £25,000, a minimum of 3 quotes and service delivery proposals are sought c) for placing a contract with a value between £25,000 - £100,000, an advertised, competitive request for quotation process is carried out d) for placing a contract with a value between £100,000 – £181,302, an advertised, competitive invitation to tender process is carried out e) when placing a contract with a value in excess of £181,302, a tendering process that meets the requirements of the EU Public Procurement Directive 2014 is undertaken f) If necessary, the council will also consult with other users of similar services as well as with interested parties g) The council will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery
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TMP3: DECISION MAKING AND ANALYSIS

The council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of investment decisions, the organisation should consider the risks to capital and returns and the implications for the organisation's future plans and budgets.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule

Capital expenditure and investment plans	<p>The 2017 Prudential Code requires the council to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority.</p> <p>Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.</p> <p>The Capital Strategy documents the council's approach to the above</p>
Major treasury decisions	<p>As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the council will create and maintain an audit trail of major treasury management decisions which comprise either:</p> <ul style="list-style-type: none">a) changes to Prudential Indicator(s) during the course of the financial yearb) options appraisal to determine a funding decisionc) raising a new long-term loan/long-term source of financed) prematurely restructuring/redeeming an existing long-term loan(s)e) investing longer-term (i.e. in excess of 1 year)f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate)g) leasingh) change in banking arrangementsi) appointing/replacing a treasury advisorj) appointing/replacing a fund manager
Process	<p>The council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>Based on the Annual Treasury Management Strategy, the Director of Finance and S151 Officer will prepare monthly for the ensuing 36 months rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:</p> <ul style="list-style-type: none">• applying the strategy on a day to day basis• monitoring the results of the strategy• recommending amendments to the strategy to the Audit Committee where applicable during the course of the year

Delegated powers for treasury management	The Director of Finance and S151 Officer has delegated powers, as per the councils constitution to carry out the council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the council.
Issues to be addressed	<p>In exercising these powers, the Director of Finance and S151 Officer and those to whom the treasury activities have been delegated will</p> <ul style="list-style-type: none"> • have regard to the nature and extent of any associated risks to which the council may become exposed and put in place effective mechanisms for risk management and mitigation as detailed in TMP1 • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained • be satisfied that the documentation is appropriate to deliver the council's objectives, protect the council's interests, and to maintain an effective audit trail • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive • follow best practice in implementing the treasury transaction <p>In exercising borrowing and funding decisions, the Director of Finance and S151 Officer will:</p> <ul style="list-style-type: none"> • evaluate economic and market factors that may influence the manner and timing of any decision to fund • consider alternative forms of funding, including use of revenue resources, leasing and private partnerships • consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use • consider ongoing revenue liabilities created • where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years <p>The council'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.</p> <p>In exercising Investment decisions, the Director of Finance and S151 Officer will:</p> <ul style="list-style-type: none"> • Determine that the investment is within the council's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; • the credit risk associated with unsecured investments with banks and building societies • consider the alternative investment products and techniques available if appropriate.
Processes to be pursued	The processes to be followed will be in keeping with TMP4 <i>Approved instruments, methods and techniques</i> .
Records to be kept	<p>The council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>Records and working papers will be maintained by the council electronically.</p>

Other	<p>The council will maintain in its Procedure Notes File for the next 24 month period the call dates for its LOBO. The council's Treasury Strategy will also state the maximum exposure to it LOBO potentially being called in that financial year.</p> <p>The council's policy regarding the repayment of its LOBO loan would be to repay at no additional cost if the opportunity arose to do so.</p>
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TMP4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The council 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*.

Schedule

Approved treasury management activities	<p>The council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> • Managing cashflow • Capital financing • Borrowing including debt restructuring and debt repayment • Investing including redemption of investments • Banking • Leasing • Managing the underlying risk associated with the council's capital financing and surplus funds activities <p>The above list is not definitive, and the council would, from time to time, consider new financial instruments and treasury management techniques. However, the council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
Approved capital financing methods and types/sources of funding	<ul style="list-style-type: none"> • Public Works Loans Board (PWLB) loans and any successor body • long term money market loans including forward starting loans and LOBOs • temporary money market loans (up to 364 days) • bank overdraft • loans from bodies such as the European Investment Bank (EIB) • stock issues • deferred purchase • Government and EU Capital Grants • lottery monies • other Capital Grants and Contributions • private finance initiative • operating and finance leases • hire purchase • sale and leaseback <p>The council may also use internal resources:</p> <ul style="list-style-type: none"> • capital Receipts • revenue Balances • reserves <p><u>Approved sources of long-term and short-term borrowing include</u></p> <ul style="list-style-type: none"> • Public Works Loan Board (PWLB) and its successor body • any institution approved for investments • any other bank or building society authorised to operate in the UK • UK public and private sector pension funds (except Isle of Wight Council Pension Fund) • capital market bond investors • UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p>

<p>Approved treasury investment instruments</p>	<p>The council will determine through its Annual Investment Strategy which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non-Specified' based on the criteria set out by the ODPM (now MHCLG) in its Investment Guidance March 2004 (as amended).</p> <p>The council will determine through the Annual Investment Strategy which instruments will be used including the maximum exposure for each category of non-specified investments. Where applicable, the council's credit criteria will also apply.</p> <p>Examples include, but are not limited to:</p> <ul style="list-style-type: none"> • deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities • banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit) • investments in Money Market Funds, i.e. 'AAA' liquidity funds • treasury bills • UK government bonds (Gilts) • sterling denominated bonds by non-UK sovereign governments • bonds issued by multilateral development banks • sterling denominated bonds by non-UK sovereign governments • covered bonds (i.e. those with underlying collateral) • loans, bonds and commercial paper issued by corporates other than banks (secured and unsecured) • reverse repurchase agreements ('reverse repos') • investments with Registered Providers of Social Housing (i.e. housing associations) • pooled funds meeting the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments and which invest in cash instruments /bonds / equities / property – (bond, equity, property and multi asset funds will be long-dated strategic investments) <p>The council will ensure it maintains the skills and experience necessary to evaluate the benefits and control the risks associated with the above investment instruments.</p>
<p>Investments that are not part of treasury management activity</p>	<p>These are investments in which the council invests and are mainly other financial assets and property primarily for financial return. Such activity includes investment in assets used to promote regeneration, loans supporting service outcomes, investments in subsidiaries and the investment property portfolio.</p> <p>The council ensures that it has the same robust procedures for the consideration of risk and return and</p> <ul style="list-style-type: none"> • ensures that all investments, including non-treasury investments are covered in the Capital Strategy. • if applicable would maintain a schedule of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the corresponding risk exposure. • maintains separate management practices for non-treasury investments which can be found here.

Use of Derivatives	<p>The general power of competence in Section 1 of the Localism Act 2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).</p> <p>If the council were to use derivative instruments, then this would be for the management of risks. The type of derivative that would be used would be limited to those that are set out in the Treasury Management Strategy. The council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.</p> <p>Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.</p> <p>The use of derivatives is restricted to only those officers who have completed the appropriate training for their use.</p>
MiFID II professional client status	<p>The council has reviewed its classification with financial institutions under MiFID II and has set out in the schedule below those organisations with which it is registered as a professional client and those which it has an application outstanding to register as a professional client.</p> <p>Organisations with whom the council has opted up to professional client status</p> <ul style="list-style-type: none"> • Arlingclose Ltd • Aberdeen Asset Management • Tradition Brokers • BGC Brokers L.P. • Tullett Prebon Group Ltd <p>The consideration of skills and experience is particularly critical where the council has requested to be treated as a professional client under MiFID II. Designation under MiFID II will be endorsed by the treasury strategy and reviewed regularly to ensure the designation remains appropriate.</p>

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

The council considers it essential, for the:

- purposes of the effective control and monitoring of its treasury management activities,
- 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 principle 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 council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance and S151 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 Director of Finance and S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Finance and S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Director of Finance and S151 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 below.

The delegations to the finance team in respect of treasury management are set out in the schedule below. The finance team will fulfil all such responsibilities in accordance with the council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule

Limits to responsibilities at executive levels	<p>Full Council: receiving and reviewing</p> <ul style="list-style-type: none">• Capital Strategy• Prudential Indicators (Capital Expenditure, Authorised Limit, Operational Boundary) <p>The Audit Committee:</p> <ul style="list-style-type: none">• approval of amendments to adopted clauses, treasury management policy statement, Treasury management strategy (if Capital Strategy is approved by full council) and treasury management practices• receiving and reviewing reports on treasury management policies, practices and activities• budget consideration and approval• receiving and reviewing external audit reports and acting on recommendations• terms of appointment
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Principles and practices concerning segregation of duties	<p>The segregation of duties will be determined by Director of Finance and S151 Officer</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> the officer(s) responsible for negotiating and closing treasury management deals is/are completely separate from the officer(s) with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments all borrowing/investments decisions must be authorised by one of Chief Executive, Director of Finance and S151 Officer, Assistant Director of Finance, Technical Finance Manager or Pension Fund & Treasury Management Accountant <p>Additionally, the council receives bank statements on a daily basis.</p> <p>These are posted independent of the treasury function in order to maintain an adequate separation of duties.</p>
Statement of duties/ responsibilities of each treasury / relevant post	<p>The Director of Finance and S151 Officer:</p> <ul style="list-style-type: none"> submitting budgets and budget variations recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy submitting regular treasury management policy reports receiving and reviewing management information reports reviewing the performance of the treasury management function and promoting best value reviews ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function ensuring the adequacy of internal audit and liaising with external audit approving the selection of external service providers and agreeing determining long-term capital financing and investment decisions The Director of Finance and S151 Officer has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments The Director of Finance and S151 Officer may delegate his power to borrow and invest to Assistant Director of Finance, Technical Finance Manager and Pension Fund & Treasury Management Accountant. <p>Assistant Director of Finance</p> <ul style="list-style-type: none"> deputise for the Director of Finance and S151 Officer adherence to agreed policies and practices on a day to day basis maintaining relationships with third parties and external service providers identifying and recommending opportunities for improved practices <p>Technical Finance Manager</p> <ul style="list-style-type: none"> execution of transactions recommending the appointment of external service providers adherence to agreed policies and practices on a day to day basis maintaining relationships with third parties and external service providers identifying and recommending opportunities for improved practices

	<p>Pension Fund and Treasury Management Accountant</p> <ul style="list-style-type: none"> • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • maintaining the cashflow forecast • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices <p>Trainee Management Accountant</p> <ul style="list-style-type: none"> • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • maintaining the cashflow forecast • recording/reconciling counterparty documentation
Absence cover arrangements	<p>Cover in the absence of the Director of Finance and S151 Officer is provided by:</p> <ul style="list-style-type: none"> • Assistant Director of Finance • Technical Finance Manager • Pension Fund and Treasury Management Accountant <p>Cover is reviewed at least every 6 months, or as necessary.</p> <p>Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.</p>
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	<p>The Chief Executive is the Head of Paid Service.</p> <p>The Assistant Director of Corporate Services is the Monitoring Officer</p> <p>Both the Director of Finance and S151 Officer and the Assistant Director of Corporate Services report directly to the Chief Executive.</p>

Dealing

Authorised officers	<p>Responsible officer for borrowing/investment decisions:</p> <p><u>Borrowing activity</u></p> <ul style="list-style-type: none"> • Director of Finance and S151 Officer • Assistant Director of Finance • Technical Finance Manager • Pension Fund and Treasury Management Accountant <p><u>Lending activity</u></p> <ul style="list-style-type: none"> • Director of Finance and S151 Officer • Assistant Director of Finance • Technical Finance Manager • Pension Fund and Treasury Management Accountant <p><u>Authorising payments for borrowing/lending</u> - any two from the list below</p> <ul style="list-style-type: none"> • Director of Finance and S151 Officer • Assistant Director of Finance • Technical Finance Manager • Pension Fund and Treasury Management Accountant
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	<ul style="list-style-type: none"> Principal Accountant – Corporate Senior Finance Business Partner – Children's Services Senior Finance Business Partner – Adult Services Finance Business Partner – Resources <p>The officer responsible for authorising the borrowing/lending activity cannot authorise the payment</p> <p><u>Transaction recording</u></p> <ul style="list-style-type: none"> Trainee Management Accountant
Dealing limits	<p>Internally Managed Investments</p> <ul style="list-style-type: none"> the maximum for any one investment deal is subject to the lending limits detailed in the council's Annual Investment Strategy.
Dealing platforms / portals	<p>The council uses the following dealing platforms:</p> <ul style="list-style-type: none"> iDealtrade – inter LA dealing platform ICD – Integrated institutional trading platform (Money Market Funds)
List of approved brokers	Brokers used by the council are specified in TMP11 <i>External service providers</i>
Policy on brokers' services	It is the council's policy to utilise the services between at least two brokers. The council will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers are taped by the brokers. No taping is carried out by the council at present.
Direct dealing practices	<p>Direct dealing is carried out with institutions identified in the Procedure Notes File subject to counterparty and maturity limits and dealing limits.</p> <p>Prior to undertaking direct dealing, the council will ensure that each counterparty has been provided with the council's list of authorised dealers and the council's Standard Settlement instructions.</p> <p>The template for the council's Standard Settlement Instructions is included in the Procedure Notes File.</p>
Inter-authority dealing	<p>The council also deals with other local authorities to invest and borrow funds for treasury management purposes.</p> <p>In addition to transactions conducted through brokers, deals are conducted direct with other authorities and also via the iDealTrade execution-only dealing platform.</p> <p>A record of all deals, together with their specific terms, will be maintained by the council.</p>
Deal Ticket proforma	Deals will be recorded as per the deal ticket proforma (proforma maintained at operational level)
Settlement transmission procedures	<ul style="list-style-type: none"> settlements are made online by CHAPS all CHAPS payments relating to settlement transactions require authorisation by an authorised officer <ul style="list-style-type: none"> all CHAPS payments require authorisation on line by 2 authorised signatories as set out in <i>TMP1(8) Fraud, error and corruption, and contingency management</i>

Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.</p> <p>Investments</p> <ul style="list-style-type: none"> • deal ticket with signature to agree the investment (either an electronic or a wet ink signature) • confirmation from the broker • confirmation from the counterparty • CHAPS payment transmission document <p>Loans:</p> <ul style="list-style-type: none"> • deal ticket with signature to agree the loan (either an electronic or a wet ink signature) • confirmation from the broker • confirmation from PWLB/market counterparty • CHAPS payment transmission document for repayment of loan.
Arrangements concerning the management of counterparty lists	<p>The Director of Finance and S151 Officer has responsibility for updating the council's records with any credit developments.</p> <p>The Technical Finance Manager is tasked with checking that records have been correctly updated to reflect any credit developments.</p>

TMP6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The council 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.

The council has delegated responsibility for the management of treasury functions to the Audit Committee.

As a minimum, Audit Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review on the performance of the treasury management function.
- 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 Audit Committee will receive regular monitoring reports on treasury management activities and risks and will have responsibility for the scrutiny of treasury management policies and practices.

The council will report the treasury management indicators as detailed in the TM Code's sector-specific guidance notes.

The present arrangements and the form of these reports are outlined below.

Schedule

Capital Strategy:	<p>This is a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. It is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy will include:</p> <ul style="list-style-type: none">• Capital expenditure, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.• Commercial activities, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.• Long-term context in which capital expenditure decisions are made for the above, risk and reward considerations and impact on the achievement of priority outcomes.• Debt management, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.• Other long-term liabilities, such as financial guarantees.• Knowledge and skills, including a summary of that available to the authority and its link to the authority's risk appetite.
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	<p>The strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.</p> <p>The Director of Finance and S151 Officer will report explicitly on the affordability and risk associated with the Capital Strategy and, where appropriate, have access to specialised advice to enable the members to reach their conclusions.</p> <p>The Director of Finance and S151 Officer will also ensure that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members.</p>
Content and frequency of other committee reporting requirements	<p>The Director of Finance and S151 Officer will annually submit budgets and report on budget variations as appropriate.</p> <p>The Director of Finance and S151 Officer will submit the Prudential Indicators and the Treasury Management Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Full Council before the start of the financial year.</p> <p>The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September. It will be presented to the Audit Committee following this date.</p> <p>A Mid-Year Treasury Report will be prepared by the Technical Finance Manager, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Audit Committee during the year.</p> <p>All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.</p>
Content of Reporting: 1. Prudential Indicators	<p>The council will set the following Prudential Indicators, and in its annual / semi-annual reports publish actual outturn (where appropriate) in respect of:</p> <ul style="list-style-type: none"> ▪ Capital expenditure (estimates; actual) ▪ Capital Financing Requirement (estimates; actual) ▪ Gross Debt and the Capital Financing Requirement ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt <p>Treasury indicators</p> <ul style="list-style-type: none"> ▪ Upper and lower limits to maturity structure of borrowing ▪ Upper limit to total of principal sums invested longer than 365 days. ▪ Upper limit on one-year revenue impact of a 1percent rise and fall in interest rates ▪ Portfolio average credit score (credit risk) ▪ Total cash available within 3 months (liquidity risk)

	<p>The Prudential Indicators are approved and revised by Full Council and are integrated into the council's overall financial planning and budget process.</p> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
2. Treasury Strategy Statement including the Annual Investment Strategy	<p>The Treasury Management Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> • link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years • strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy for the forthcoming year(s) * • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. <p>*Based on the MHCLG's Guidance on Investments, the council will produce an Annual Investment Strategy which sets out</p> <ul style="list-style-type: none"> ▪ the objectives, policies and strategy for managing its investments ▪ the determination of which Specified and Non-Specified Investments the council will utilise during the forthcoming financial year(s) based on the council's economic and investment outlook and the expected level of investment balances ▪ the limits for the use of Non-Specified Investments <p>The Annual Investment Strategy will be integrated into the Treasury Strategy Statement.</p> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
3. Mid-Year and Annual Treasury Outturn Reports	<p>The Director of Finance and S151 Officer will produce a mid-year and an annual report for the Audit Committee on all activities of the treasury management function as soon as practicable after the end of the relevant period.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> ▪ the prevailing economic and credit environment ▪ a commentary on treasury operations (borrowing and investments) for the period, including their revenue effects; ▪ commentary on the risk implications of treasury activities undertaken and the overall impact on the treasury portfolio ▪ any future implications for the treasury portfolio ▪ compliance with agreed policies/practices and statutory/regulatory requirements ▪ compliance with agreed policies / practices and statutory / regulatory requirements ▪ performance measurement ▪ training /continuous professional development undertaken by treasury officers. <p>The mid-year and annual reports will include compliance with the treasury indicators. Compliance with non-treasury prudential indicators will be reported along with the capital year-end report.</p>

Content and frequency of management information reports	<p>The Pension Fund and Treasury Management Accountant produces a quarterly monitoring report for The Treasury Management Group</p> <p>This report includes details of:</p> <ul style="list-style-type: none"> • current net borrowing position • maturity profile of current position • forecast borrowing requirements for future three years • Comparison of cost of borrowing to budget • extent of compliance with the treasury strategy and reasons for variance (if any) • Prudential Indicator monitoring and compliance
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TMP7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Director of Finance and S151 Officer will prepare, and the council will approve and, if necessary, from time to time will 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 matters 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 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*.

The Director of Finance and S151 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 council 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 council's accounts is set out in the schedule.

The council 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 below.

Schedule

Statutory/regulatory requirements	<p>Balanced Budget Requirement: The provisions of S32 and S43 of the Local Government Finance Act 1992 require this council to calculate its budget requirement for each financial year including, among other aspects:</p> <p>(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account, and</p> <p>(b) revenue costs which flow from capital financing decisions</p> <p>S33 of the Act requires the council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
Accounting practices and standards	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".
Financial Statements	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none">• Narrative Report and Annual Governance Statement• Statement of Responsibilities for the annual accounts• Comprehensive Income and Expenditure Statement• Movement in Reserves Statement• Balance Sheet• Cash Flow Statement• Notes to the Financial Statements• Collection Fund• Fire-Fighters pension fund• Isle of Wight Council Pension Fund• Independent Auditor's Opinion
Format of the council's accounts	The current form of the council's accounts is available on the website here .

Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.
Treasury related information requirements of external auditors	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the council's officers.</p> <p>Information in this context includes internally generated documents including those from the council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.</p> <ul style="list-style-type: none"> • Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003 • Prudential Indicators • Treasury Management Strategy including Annual Investment Strategy <p><u>External borrowing</u></p> <ul style="list-style-type: none"> • new loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments) • loan maturities • compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years. • analysis of loans outstanding at year end including maturity analysis • analysis of borrowing between long- and short-term • debt management and financing costs • calculation of (i) interest paid (ii) accrued interest • interest paid • MRP calculation and analysis of movement in the CFR. • bank overdraft position. • brokerage/commissions/transaction related costs <p><u>Investments</u></p> <ul style="list-style-type: none"> • investment transactions during the year including any transaction-related costs • cash and bank balances at year end • short-term investments at year end • long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end (if applicable) • calculation of (i) interest received (ii) accrued interest • actual interest received • evidence of existence and title to investments (month-end / quarter-end statements) • schedule of any investments in companies (together with their latest financial statements); statement of transactions between the company and the council (if applicable) <p><u>Cash Flow</u></p> <ul style="list-style-type: none"> • reconciliation of the movement in cash to the movement in net debt • cash inflows and outflows (in respect of long-term financing)

	<ul style="list-style-type: none"> • cash inflows and outflows (in respect of purchase/sale of long-term investments) • net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources. <p><u>Other</u></p> <ul style="list-style-type: none"> • External advisors'/consultants' charges
Internal Audit	<p>Internal Audit generally conducts an annual review of the treasury management function and probity testing.</p> <p>The internal auditors will be given access to treasury management information/documentation as required by them.</p>
Compliance with CIPFA Treasury Management and Prudential Codes	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
Costs for treasury management	<p>The budget for treasury management forms part of the Corporate Services budget.</p>

TMP8: CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the council will be under the control of the Director of Finance and S151 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 Director of Finance and S151 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 below.

Schedule

Arrangements for preparing /submitting cash flow statements	<p>Cash flow forecasts will be viewed over <u>3-year</u> time horizons and will be used to formulate the council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level electronically.</p> <p>The accuracy and effectiveness of the council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>An outline medium-term cash flow model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves.</p> <p>A detailed annual cash flow is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a monthly basis. It identifies the major inflows and outflows on a month by month basis.</p> <p>It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the council's various service sections incurring the expenditure / receiving the income and can be supplemented by the experience from previous years.</p> <p>Daily cash flows show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the Logotech system.</p>
Content and frequency of cash flow budgets	<p>The detailed annual cash flow model includes the following:</p> <ul style="list-style-type: none"> • revenue income and expenditure based on the budget • profiled capital income and expenditure as per the capital programme <p>Revenue activities</p> <p><u>Inflows</u></p> <ul style="list-style-type: none"> • revenue Support Grant • precepts received • non-domestic rates receipts • council tax receipts • DSS / other government grants • cash for goods and services • other operating cash receipts

	<p><u>Outflows</u></p> <ul style="list-style-type: none"> • salaries and payments on behalf of employees • operating cash payments • housing benefit paid • precepts paid • NNDR payments • payments to the capital receipts pool <p>Capital activities including financing:</p> <p><u>Inflows</u></p> <ul style="list-style-type: none"> • capital grants received • sale of fixed assets • other capital cash receipts <p><u>Outflows</u></p> <ul style="list-style-type: none"> • purchase of fixed assets • purchase of long-term investments • other capital cash payments <p>Financing, servicing of finance/Returns on Investments:</p> <p><u>Inflows</u></p> <ul style="list-style-type: none"> • new long-term loans raised • new short-term loans raised • interest received • discount on premature repayment of loan <p><u>Outflows</u></p> <ul style="list-style-type: none"> • loan repayments • premium on premature repayment of loan • short-term investments • capital element of finance lease rental payments • interest paid • interest element of finance lease rental payments
Monitoring, frequency of cash flow updates	<p>The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:</p> <ul style="list-style-type: none"> • net RSG and NNDR payments as notified • police authority precepts as notified • actual salaries and other employee costs paid from account bank statements • actual payments to Inland Revenue from general account bank statements • actual council tax received from the cash receipting system • actual rent allowances paid from the cash receipting system • actual housing benefit paid • actual capital programme expenditure and receipts
Bank statements procedures	<p>The council receives bank statements on a daily basis. These are posted independent of the treasury function in order to maintain an adequate segregation of duties and are reconciled to the general ledger on a monthly basis.</p>
Payment scheduling and agreed terms of trade with creditors	<p>The council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> • to make accurate and timely payments to creditors of the council • to make urgent payments to creditors within one day if required • to respond to all written enquires within 5 working days

Arrangements for monitoring debtor/ creditor levels	<p>Debtor levels are monitored using a monthly Sundry Debtors Monitoring Report to the Customer Accounts Team Leader which will include an analysis of debt by age and details and details of recovery status.</p> <p>The level of creditor invoices being processed/remaining unpaid is monitored on a daily basis by the Creditors Officer. A report is produced monthly of the percentage of invoices paid within 30 and 20 days and is reported to service board.</p>
Procedures for banking of funds	<p>Instructions for the banking of income are set out in the Cash Handling Policy. Cash and cheques received in the cashier's section are banked twice weekly.</p> <p>All the council's sections are advised of the requirement to bank on a regular basis to comply with recommended best practice and also remain within the particular insurance limits for the council's premises.</p>
Listing of sources of information	The treasury function receives cash flow information as detailed above.
Practices concerning prepayments to obtain benefits	The council would not normally expect to make prepayments. However, each case would be examined on its merits, including the risk and potential benefit.

TMP9: MONEY LAUNDERING

Background

The Proceeds of Crime Act 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

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

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that may prejudice and investigation.

Organisations pursuing relevant businesses were required to

- appoint a nominated officer and implement internal reporting procedures;
- train relevant staff in the subject;
- establish internal procedures with respect to money laundering;
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2002 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities.”

Principle

The council 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 counterparties 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 below.

Schedule

Anti-money laundering policy	<p>This council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The council has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
Treasury documentation	<p>The council will reflect the anti-money laundering measures it has in place as part of its treasury documentation. Such measures include:</p> <ul style="list-style-type: none">• awareness of what constitutes money laundering• the obligation to report knowledge of/having reasonable grounds to believe an offence might be committed• maintaining up-to-date direct dealing and SSI mandates with counterparties

Nomination of Responsible Officer(s)	<p>(a) the council has nominated the Head of Internal Audit to be the responsible officer to whom any suspicions relating to transactions involving the council will be communicated</p> <p>(b) the responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed, so they are alert for suspicious transactions</p> <p>(c) the responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>
Procedures for establishing the identity/authenticity of Lenders and Borrowers	<p>(a) in the course of its treasury activities, the council will only borrow from permitted sources identified in TMP4 <i>Approved instruments, methods and techniques</i></p> <p>(b) in the normal course of events the council will not accept loans from individuals.</p> <p>(c) in the course of its treasury activities, the council will only invest with those counterparties which are on its approved lending list</p> <p>(d) the identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website</p> <p>(e) all receipts/disbursements of funds will be undertaken by <u>BACS</u> or <u>CHAPS</u> settlement</p> <p>(f) direct dealing mandates: The council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed</p> <p>(g) all banking transactions will only be undertaken by the personnel authorised to operate the council's banks accounts</p> <p>(h) if the council provides loans to individuals, or organisations, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals or organisations.</p> <p>(i) when receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details</p>
Identifying sources of borrowing/investment	<p>When borrowing / investing funds for treasury management purposes, the council will only borrow from and invest with sources and counterparties as identified in the Treasury Management Strategy. The criteria for the construction and management of the lending list are detailed in TMP1.1 <i>Risk Management</i>.</p>

TMP10: TRAINING AND QUALIFICATIONS

The council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. 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 Director of Finance and S151 Officer will recommend and implement the necessary arrangements.

The Director of Finance and S151 Officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

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

The present arrangements are detailed in the schedule below.

Schedule

Details of approved qualifications	<p>Treasury Staff are expected to have a professional accountancy qualification or be an experienced member of the Association of Accounting Technicians.</p> <p>Cover for day-to-day treasury management can be provided by suitably trained staff with the approval of the Director of Finance and S151 Officer.</p>
Details of approved training courses	<p>The courses/events the council would expect its treasury personnel to consider are:</p> <ul style="list-style-type: none">• Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and the Association of Corporate Treasurers and other appropriate organisations• Any workshops/seminars run by Treasury Management Consultants• Attending CIPFA Conference• Training attended by those responsible for scrutiny of the treasury function <p>The council participates in a CIPFA Employer Accreditation Scheme for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.</p>
Records of training received by treasury and other relevant staff	Treasury-related training records are maintained by each officer, and an outline record will be maintained on the Procedure Notes file
Records of training received by those charged with governance	Training records are maintained of members/committees responsible for governance of treasury management.

TMP11: USE OF EXTERNAL SERVICE PROVIDERS

The council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises that there may be 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 a 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 Director of Finance and S151 Officer, and details of the current arrangements are set out in the schedule below.

Schedule

Contract threshold	The council's Financial Regulations require that a formal contract is in place with all external service. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of the services provided	<p>(a) <u>Bankers to the Council</u> Lloyds Bank 3 Town Quay, Southampton SO14 2AQ Contract period: April 2017 to April 2020: extension to April 2022 This service will be re-tendered regularly</p> <p>(b) <u>Treasury advisor</u> Arlingclose 35 Chiswell Street, London EC1Y 4SE Contract period: April 2018 to March 2021: extension to March 2024 This service will be re-tendered regularly</p> <p>(c) <u>Brokers</u> It is considered good practice for the council to have at least two brokers and to spread business between them. The council is not contracted to any of its brokers</p> <p>Tradition – 0207 422 3566 RP Martins – 0207 469 9580 Tullet Prebon – 0207 200 7042 King and Shaxson – 0207 929 8529 BGC – 0207 894 7742</p> <p>(d) <u>Treasury System</u> Logotech – 01784 420798</p>
Regulatory status of services provided	The council's external service providers are all regulated by the FCA.

Details of service provided by Treasury Advisor	<ul style="list-style-type: none"> • Strategic Advice on council Treasury Management Strategy • Capital Finance Advice • Assistance with the Treasury Management annual strategy report • Interest rate forecasting, market updates and economic advice • Investment policy • Credit ratings and counterparty creditworthiness • Debt management • Seminars and training • Access to website
Bribery Act	The council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers

TMP12: CORPORATE GOVERNANCE

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

The council has adopted and has implemented the key principles of the Treasury Management Code of Practice. This, together with the other arrangements detailed in the schedule below, is considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance and S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule

Stewardship responsibilities	The Director of Finance and S151 Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection	<p>The following documents are freely available for public inspection:</p> <ul style="list-style-type: none">• annual statement of accounts• medium term financial strategy• 5 Year capital plan• treasury management policy• capital strategy• treasury management strategy• budget monitoring reports• annual and mid-year treasury reports
Council's website	Financial information is additionally available on the council's website .
Procedures for consultation with stakeholders	Members and senior officers of the council are consulted via reports to the Audit Committee and officer/member briefing sessions.
List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	The council does not manage any external funds on behalf of others.

TMP13: INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

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

The council will maintain a schedule setting out a summary of existing material investment, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The council recognises that many of the principles underlying TMPs 1 to 12 will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ significantly. A published schedule has been agreed by Audit Committee that sets out the investment practices for non-treasury investments and this will be complied with by all officers or agencies responsible for such investments.

It is recognised that the council may make investments for policy reasons outside of normal treasury activity, and these may include:

- Service investments – these are held clearly and explicitly in the course of the provision, and for the purposes of, operational services, including regeneration
- Commercial investments – these are undertaken for mainly financial reasons. They may include
 - Investments as part of business structures, such as loans to and shares in subsidiaries
 - Investments explicitly taken out with the aim of making a financial surplus for the council and include commercial properties.

Schedule

Register of non-treasury investments and financial guarantees	<p>The council holds a variety of assets in its property portfolio which includes offices and service delivery locations, properties leased to local businesses such as industrial units for economic development or held for regeneration purposes such as development land, and a limited number of domestic properties for rental to the adult LD and social care sector. All of these properties are detailed on the councils asset register which is available here.</p> <p>The council has no subsidiaries at present but does hold interests in joint ventures. These are detailed in the council's annual statement of accounts under note 41 – Group Accounts which can be viewed here.</p> <p>The council gives loans in certain circumstances and at present these are included in the statement of accounts long term debtors.</p> <p>The council has made commercial property investments aimed at generating income to support service delivery. These have been made in line with the approved commercial investment strategy which can be viewed here. Details of those investments will be made from 2018/19 in the annual statement of accounts which is available here.</p>
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Due diligence process	<p>Commercial Property Investments</p> <p>The Commercial Property strategy which can be found here lists out the due diligence that should be carried out prior to investment in a property is undertaken. Any proposal will need to deliver best value and also has proper regard to the following:</p> <ul style="list-style-type: none"> a) To create a balanced commercial property portfolio that provides long term rental returns and growth b) A core portfolio of property assets will be sought with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk. c) Core assets being the best property for the sector in an ideal location with long term income to high quality tenants. d) All investments considered must initially provide income (yield) equal to or above the councils required rate of return (IRR). e) Prioritise properties that yield optimal rental growth and stable income. f) Protect capital invested in acquired properties. g) Location will be dictated by opportunity to acquire investments that meet the strategy, proximity to the Isle of Wight will be a deciding factor when all other attributes are equal. h) The relevant capital and revenue costs and income resulting from the investment over the whole life of the asset i) The extent to which the investment is expected to deliver a secure ongoing income stream j) The level of expected return on the investment k) The payback period of the capital investment <p>Service Investments</p> <p>The Regeneration Programme, which outlines the methodology of how investment for Regeneration purposes will be undertaken can be found here, and the section dealing with the due diligence processes are to be found on pages 55-57. All business cases would be underpinned by a sound business case, which have been developed with reference to the Treasury Five Cases model (Greenbook).</p>
1. Risk Management	<p>The council has a medium risk attitude that will be achieved through a progressive risk-adverse to risk-seeking strategy over time. In order to achieve this the initial investments will be lower yielding/lower risk assets.</p> <p>The elements within TMP1 that are applicable to non-treasury investments are below:</p> <p>TMP1.1 Credit & Counterparty Risk</p> <p>In order to limit risk to the council the due diligence will be undertaken including the area of the financial strength of any given tenant and will include the appraisal of company accounts and the use of credit scoring.</p> <p>Where service investments are entered into in conjunction with third parties, then there will be an appraisal of the financial stability of the third party.</p>

	<p>TMP1.2 Liquidity Risk</p> <p>The process of buying and selling commercial property, and the development of service investments, are complex and can result in transactional delay and uncertainty which carries risk from market shift, abortive transactional costs and an inability to realise a quick sale.</p> <p>This risk can be managed by good portfolio management and by adopting, where possible, the Investment Property Forum's best practice guide "Readiness for sale - A guide for streamlining commercial property transactions".</p> <p>TMP1.3 Interest Rate Risk Management</p> <p>Any borrowing that is required to finance the non-treasury investments will be undertaken in accordance with the prevailing Treasury Management Strategy and the practices laid out in TMP's 1-12 will be adhered to.</p> <p>TMP1.5 Inflation Risk Management</p> <p>Fluctuations in demand and supply of the individual market and the wider economy will see the value of investments and the income generated from them, rise and fall, meaning that the council may not recoup the original amount invested in full.</p> <p>The council will keep under review the sensitivity of its non-treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.</p> <p>TMP1.6 Refinancing Risk Management</p> <p>In order to reduce the refinancing risks in investing in non-treasury investments, the council will have regard to the practices indicated in TMP1.6</p> <p>TMP1.7 Legal & Regulatory Risk Management</p> <p>The council is empowered to buy and sell land pursuant to section 120 of the Local Government Act 1972. Section 1 of the Local Government Act 2003 provides a power to the council to borrow for the purposes of an enactment.</p> <p>However, the Prudential Code 2018, and the MCHLG guidance, states that authorities must not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. If the council chooses not to have regard to this, then the investment strategy should explain:</p> <ul style="list-style-type: none"> • Why the council has decided not to have regard to this guidance • The council's policies in investing the monies borrowed, including management of risks. <p>The Investment strategy will detail the decisions of the council in regard to this matter.</p>
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	<p>TMP1.8 Fraud, error and corruption, and contingency management</p> <p>The due diligence work undertaken prior to investing in a non-treasury investment, will mitigate this risk. The principal of active portfolio management will also aid this.</p> <p>Each decision to invest in a commercial property has to be under taken by the Chief Executive, Director of Finance and S151 Officer and the Cabinet member for resources, whilst the acquisition of service investments have to follow the capital bid process.</p> <p>TMP1.9 Price Risk management</p> <p>As part of the active portfolio management the market movements will be monitored and properties will be disposed of before the value has dropped below the original market price.</p>
Independent and expert advice	<p>Commercial Property Investments</p> <p>The council has entered into an agreement with Portsmouth City Council to provide the services of their property investment team. This team has private sector fund investment experience and has a network of specialists that are able to provide advice as and when required.</p> <p>Service Investments</p> <p>The council will utilise the advice of professional services and consultants where this expertise is not available within the council workforce. The requirements of each project will be assessed individually.</p>
1. Decision making, governance and organisation	<p>Commercial Property Investments</p> <p>The Full Council has agreed the establishment of a commercial property fund. The authorisation of expenditure from this fund has been delegated by the council to the Chief Executive, the Director of Finance and S151 Officer and the Cabinet member for resources and these decisions will only be made once the due diligence has been carried out and reviewed.</p> <p>Service Investments</p> <p>When the investment in a service investment has been identified then in order to obtain funding they have to submit their application via the capital bids process. The Director of Finance and S151 Officer will make the decision as to whether this expenditure will be undertaken.</p>
2. Performance measurement and management	<p>Commercial Property Investments</p> <p>On a quarterly basis the commercial property team at Portsmouth City Council reports to the Audit Committee. In their report they provide information regarding:</p> <ul style="list-style-type: none"> • the progress of purchases to date • the rental income projections • the current strategy position • medium to long term strategy • market outlook and recent performance • financial performance of the portfolio <p>Service Investments</p> <p>Service investments are not provided with financial performance targets directly. These will contribute towards council objectives such as the provision of affordable housing and additional employment. There will be</p>

	an inherent benefit in that these will alleviate pressures on other council services such as homelessness which can contribute towards savings targets.
3. Reporting and management information	<p>Capital Strategy</p> <p>The details of the non-treasury investments will be included with the Capital Strategy, which will be approved by Full Council on an annual basis. For full information please see TMP 6 above</p> <p>Commercial Property Investments</p> <p>The Audit Committee will receive a report on a quarterly basis setting out the progress of the property investment fund, including the total income that will be accrued by the council on an annual basis as a result of this policy.</p> <p>Service Investments</p> <p>The nature of service investments is such that part of the reason for their development is to generate employment and for wider social improvement which is difficult to be measured. The cost of such investments will be monitored via the capital programme.</p>
4. Training and qualifications	<p>Commercial Property Investments</p> <p>The Full Council has agreed the establishment of a commercial property fund. The authorisation of expenditure from this fund has been delegated by the council to the Chief Executive, the Director of Finance and S151 Officer and the Cabinet member for resources and these decisions will only be made once the due diligence has been carried out and reviewed. The council has commissioned Portsmouth City Council to provide fund management and acquisition and disposal service on behalf of the council. It is part of these contractual arrangements that their staff have the necessary knowledge and training.</p> <p>Service Investments</p> <p>In order to obtain funding for a service investment an application has to be made via the capital bids process. This will include any independent advice that is required, if officers have insufficient knowledge in that area.</p>

Notes:

Items the council would maintain at operational level in an 'Procedure notes file' as referred to in this template:

1. The council's Credit Criteria
2. Current Lending List
3. Business Reserve Accounts / Money Market Funds
4. Counterparties with whom the council deals direct
5. Dealing checklist
6. Deal ticket proforma
7. Format of the council's Standard Settlement Instructions form
8. Settlement Procedures
9. Procedure Notes for the council's on-line banking system

10. Procedure Notes for the council's treasury management system
11. Procedure Notes for dealing online with counterparties
12. LOBOs – call dates, call option protocol
13. Procedure for dealing with requests for change of banking/payment details