

**TREASURY MANAGEMENT  
PRACTICES**

***Schedules***

***July 2006***





## TREASURY MANAGEMENT PRACTICES – SCHEDULES

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

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## TMP1 RISK MANAGEMENT

### 1.1 LIQUIDITY RISK MANAGEMENT

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

#### **1.1.1 Amounts of approved minimum cash balances and short-term investments**

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

#### **1.1.2 Details of:**

a. Standby facilities

At the end of each financial day any unexpected surplus funds are retained in the Council's main bank account. The bank contract pays a favourable rate of 1% below base rate for credit balances should they arise. No more than £250k should be held in the account with overdraft at no more than £250k.

b. Bank overdraft arrangements

A £2m overdraft at 1% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.

c. Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £21.5m, this is the difference between the Authorised Limit and the Operational Boundary for External Debt.

d. Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Special payments

Notice to be given to the Corporate Finance Manager for all special payments above £100,000 to be transferred on the day of notification.

### 1.2 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points as set out below. These limits and strategy are set out in the annual Treasury Management Strategy Statement . This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

1.2.1. Details of approved interest rate exposure limits (Performance Indicator 8)

1.2.2 Trigger points and other guidelines for managing changes to interest rate levels (contained in the annual Treasury Management Statement)

1.2.3 Upper limit for fixed interest rate exposure (Performance Indicator 8 - 150%)

1.2.4 Upper limit for variable interest rate exposure (Performance Indicator - 20%)

**1.2.5 Policies concerning the use of instruments for interest rate management.**

- a. forward dealing  
Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing with a maturity of more than 2 years forward then the approval of the Director of Resources is required.
- b. callable deposits  
The Council will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Authorised Counterparties for Temporary Investment list. The list is a live document that is updated for changes in credit ratings as advised by the Council's Treasury Management Advisors. The list can be found in daily cash flow sheets folder. The borrowers option should also be taken to prevent the lock in on rates.
- c. LOBOS (borrowing under lender's option/borrower's option)  
Use of LOBOs are considered as part of the annual borrowing strategy. Any LOBO borrowing must be explicitly approved by the Director of Resources.

**1.3 EXCHANGE RATE RISK MANAGEMENT**

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes. It will also seek to minimise what risk it does have by using the below policies.

**1.3.1 Approved criteria for managing changes in exchange rate levels**

The Council from time to time may receive or pay a transaction in a foreign currency. The sums involved are minimal. Currently in the case of both receipts and payments the Council takes no risk in the transaction with a sterling equivalent either requested or paid. If in the future there are regular income and expenditure flows in the same foreign currency a specific foreign currency account facility will be negotiated with the main bank contract.

**1.4 INFLATION RISK MANAGMENT**

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

**1.4.1. Details of approved inflation exposure limits for cash investments/debt** - During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

**1.5 CREDIT AND COUNTERPARTY RISK MANAGMENT**

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

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

commensurate with the management of the associated risk. The Council adopts Sectors Counterparties schedule as its approved Authorised Counterparties for Temporary Investment list.

#### **1.5.1. CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS**

The Council will determine through its Annual Investment Strategy the credit criteria for various investment instruments in the 'Specified' and 'Non-Specified' Investments categories.

#### **1.5.2. APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING / REMOVING COUNTERPARTIES**

Credit ratings for individual counterparties can change at any time. The dealing desk officer is responsible for applying approved credit rating criteria for selecting approved counterparties.

#### **1.5.3. FULL INDIVIDUAL LISTINGS OF COUNTERPARTIES AND COUNTERPARTY LIMITS AS AT 01/04/2006 is attached at Appendix A**

### **1.6 REFINANCING RISK MANAGEMENT**

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

#### **1.6.1. DEBT/OTHER CAPITAL FINANCING, MATURITY PROFILING, POLICIES AND PRACTICES**

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

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

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

Rescheduling will be reported to the Executive Member for Resources as part of the half yearly treasury management update following its action.

#### **1.6.2. PROJECTED CAPITAL INVESTMENT REQUIREMENTS**

The Director of Resources will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

Under the new capital financing system, the definition of capital expenditure and long term liabilities used in the Prudential Code will follow recommended accounting practice (SORP).

#### **1.6.3. POLICY CONCERNING LIMITS ON AFFORDABILITY AND REVENUE CONSEQUENCES OF CAPITAL FINANCING.**

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

The Council will use the definitions provided in the Prudential Code for borrowing (83), capital expenditure (84), debt (86), financing costs (87), investments (88), net borrowing (89), net revenue stream (90), other long term liabilities (91).

#### **1.6.4 CAPITAL RECEIPTS GENERATED BY THE HRA**

75% of capital receipts generated by the Housing Revenue Account will be pooled, i.e. paid to the Secretary of State, with the exception of 'qualifying disposals' (e.g. large and small scale voluntary transfers of housing to social registered landlords).

#### **1.6.5 PFI, Partnerships, ALMOs and guarantees**

The Council entered in to a 30 year Schools PFI deal with Sewell Education York Limited in January 2005. Under the terms of the contract any refinancing is at the discretion of the provider, with any financial benefits been shared equally between the Council and Sewell.

### **1.7 LEGAL AND REGULATORY RISK MANAGEMENT**

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

#### **1.7.1. REFERENCES TO RELEVANT STATUTES AND REGULATIONS**

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

- CIPFA Prudential Code for Capital Finance in Local Authorities
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004
- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)
- CIPFA's Treasury Management Codes of Practice 2001 and 1996
- CIPFA Guide for Chief Financial Officer on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 1995
- LAAP Bulletin 55 CIPFA's Guidance on Local Authority Reserves and Balances
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice



- PWLB annual circular on Lending Policy
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

### **1.7.2. PROCEDURES FOR EVIDENCING THE COUNCIL'S POWERS/AUTHORITIES TO COUNTERPARTIES**

The Council's powers to borrow and invest are contained in legislation as set out below:

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

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

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

### **REQUIRED INFORMATION ON COUNTERPARTIES**

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers (Sector) based upon credit ratings supplied by credit rating agencies, Moody's and Fitch.

### **1.7.3 STATEMENT ON THE COUNCIL'S POLITICAL RISKS AND MANAGEMENT OF SAME.**

#### **1.7.3.1 Director of Resources**

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

#### **1.7.3.2 Monitoring Officer**

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

#### **1.7.3.3 Chief Financial Officer**

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

### **1.8 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY RISK MANAGEMENT**

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will therefore:-

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

## **DETAILS OF SYSTEMS AND PROCEDURES TO BE FOLLOWED, INCLUDING INTERNET SERVICES**

### **Authority**

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the Director of Resources
- Loan procedures are defined in the Council's Financial Regulations.

### **Procedures**

- Electronic banking procedures (Instructions for Dealers Procedure File – Treasury Management)
- Procedures for making CHAPS payments. (CHAPS/Hexagon Payment File – Treasury Management)

### **Investment and borrowing transactions**

- A detailed register of all loans and investments is maintained in the Investment Register and Debt Register (PWLB) – Location: Capital & Treasury\ Dealing Desk\ Cash flow\ 0607\ IR0607 & Capital & Treasury\ LT Debt\ PWLB Royal Debt\ PWLB.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Corporate Finance Manager for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Corporate Finance Manager for resolution.

### **Regularity and security**

- Lending is only made to institutions on the Approved List of Counterparties.
- The Cash Flow Model and Investment Register system prompts the dealing officer that money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals..
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury management dealing team is an authorised signatory.
- The Cash Flow model and Investment Register system is backed up daily .
- There is £5m single transaction insurance cover for employees involved in loans management and accounting.

### **Checks**

- The bank reconciliation is carried out quarterly from the bank statement to the financial ledger.
- The Cash Flow Model, Investment Register and Debt Register system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.
- Budget monitoring is produced every quarter when a review is undertaken against the budget for interest earnings and debt costs.

### **Calculations**

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Cash Flow Model/ Investment Register.

- The Debt Register calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates are calculated by the Debt register and Investment register.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund and the Housing Revenue Account recharge.

### **1.8.1. EMERGENCY AND CONTINGENCY PLANNING ARRANGEMENTS**

#### **Disaster Recovery Plan**

The authority has in place procedures for continued operations in the event of offices being unusable or the event of the Electronic Banking System failing. These can be found in Instructions for Dealers Procedure File – Treasury Management.

Daily cash flow management can take place from a remote terminal using either the HSBCnet online banking facility or by contacting HSBC by telephone. All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files relating to the daily cash flow management are backed up on the server, onto compact disk and periodically to a separate memory key to enable files to be accessed from remote sites.

### **1.8.2. INSURANCE COVER DETAILS.**

#### **Fidelity insurance**

The Council has 'Fidelity' insurance cover with Zurich. This covers the loss of cash by fraud or dishonesty of employees.

This cover is limited to £5m for any one event with no excess.

#### **Professional Indemnity Insurance**

The Council also has a 'Professional Indemnity' insurance policy with Zurich which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £1m for any one event with an excess of nil for any one event.

## **1.9 MARKET VALUE OF INVESTMENTS RISK MANAGEMENT**

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

### **1.9.1. DETAILS OF APPROVED PROCEDURES AND LIMITS FOR CONTROLLING EXPOSURE TO INVESTMENTS WHOSE CAPITAL VALUE MAY FLUCTUATE (GILTS, CDS, etc.)**

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Treasury Management Strategy Statement. CYC does not enter into investments where capital values may fluctuate.

## **TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS**

### **2.1 EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS**

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

- a. Fortnightly tactical reviews and forward looking meetings carried out by the treasury management team
- b. biannual reviews with our treasury management consultants
- c. quarterly budget monitoring
- d. annual review as reported to committee
- e. comparative reviews
- f. strategic, scrutiny and efficiency best value reviews
- g. quarterly Member reports

#### **2.1.1 Periodic reviews during the financial year**

The senior dealing officer holds a treasury management review meeting with the treasury management dealing team every two weeks to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts. This will include :

- (a) Total debt (both on-and off balance sheet) including average rate and maturity profile
- (b) Total investments including average rate and maturity profile
- (c) Changes to the above from the previous review and against the TMSS.
- (d) Projected cash balances and planned activity

The minutes of the meetings are produced and circulated to all relevant staff.

#### **2.1.2 Reviews with our treasury management consultants**

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

#### **2.1.3 Annual Review after the end of the financial year**

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. comparison of return on investments to the investment benchmark
- h. compliance with Prudential Indicators

#### **2.1.4 Comparative reviews**

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

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

### **2.2 BENCHMARKS AND CALCULATION METHODOLOGY:**

#### **2.2.1 Debt management**

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year

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

### **2.2.2 Investment.**

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
  - i) 7 day LIBID uncompounded
  - ii) 3 month LIBID compounded quarterly

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers every six months.

## **2.3 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT,**

### **2.3.1 Frequency and processes for tendering**

Tenders are normally awarded on a 3 year basis with the option to extend for 2 years, if approved by the Executive Member for Resources. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

### **2.3.2 Banking services**

The Council's banking arrangements are to be subject to competitive tender every 4 years with an option to extend for 2 further years if approved by Corporate Services unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate. If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

### **2.3.3 Money-broking services**

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

An approved list of brokers is established which takes account of both prices and quality of services. The Council currently has 4 brokers on its approved list.

### **2.3.4 Consultants'/advisers' services**

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

### **2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)**

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

## TMP 3 DECISION-MAKING AND ANALYSIS

### 3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

#### 3.1.1 Records to be kept

The Treasury section has a spreadsheet based cash flow model system in which all investment and loan transactions are recorded. Full details of the system are covered in the user manual. The following records will be retained : -

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

#### 3.1.2 Processes to be pursued

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

#### 3.1.3 Issues to be addressed.

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

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

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

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

**3.1.3.3 In respect of investment decisions, the Council will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;
- c) Determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

## TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

### 4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

### 4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Annual Investment Strategy details the approved instruments for investments

### 4.3 APPROVED TECHNIQUES

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

### 4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

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

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●
 <b>Other Methods of Financing</b>		
Government and EC Capital Grants		
Lottery monies		
PFI/PPP		
Operating leases		

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Resources has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers



Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

**4.5 INVESTMENT LIMITS**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument (see also Sector Treasury Management counterparties list and investment matrices).

**4.6 BORROWING LIMITS**

See the Treasury Management Strategy Statement and Prudential Indicators.

## TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

### 5.1 LIMITS TO RESPONSIBILITIES / DISCRETION AT COUNCIL/EXECUTIVE LEVELS

- a) The full Council will set the Prudential Indicators and revise them as and when necessary.
- b) The Executive and then the full Council will receive and review reports on treasury management policies, practices and activities, the annual treasury management strategy and annual report on debt rescheduling.
- c) The Director of Resources will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- d) The Executive will consider and approve the Treasury Management Budget.
- e) The Executive will approve the segregation of responsibilities.
- f) The Director of Resources will receive and review external audit reports and put recommendations to the Audit Committee.

### 5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

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

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

### 5.3 TREASURY MANAGEMENT ORGANISATION CHART

	Director of Resources		Authorisation <£15m
	I		
	Head of Finance		
	I		
	Corporate Finance Manager		Authorisation <£8m
	I		
	Corporate Accountant		<u>Dealing</u>
	I		
Financial Analyst	Senior Accounting Technician	Trainee Accountant	

## **5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST**

### **5.4.1. Director of Resources**

The Director of Resources will:

- a) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- b) In setting the prudential indicators, the Director of Resources will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
- c) Establish a measurement and reporting process that highlights significant variations from expectations.
- d) Submit treasury management reports as required the Executive and to full Council.
- e) Review the performance of the treasury management function and promote best value reviews.
- f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- g) Ensure the adequacy of internal audit, and liaising with external audit.
- h) Recommend on appointment of external service providers in accordance with council standing orders.

1. The Director of Resources has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
2. The Director of Resources may delegate his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Officer Treasury Management Team or the Accountancy Assistants Treasury Management Team must conduct all dealing transactions, or staff authorised by the Director of Resources to act as temporary cover for leave/sickness. All transactions over the value of £5m must be countersigned by at least two signatories.
3. The Director of Resources will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
4. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Resources to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
5. It is also the responsibility of the Director of Resources to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

### **5.4.2 Head of Finance**

The Head of Finance will:

- a) Make reports to the Council under S114 of the Local Government Finance Act 1988 if the Director of Resources considers the Council is likely to get into a financially unviable situation.
- b) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.

### **5.4.3 Corporate Finance Manager**

The responsibilities of this post will be: -

- a) Execution of transactions and conduct of other day to day activities in accordance with the Treasury Management Practices.
- b) Adherence to agreed policies and limits.
- c) Managing the overall treasury management function.
- d) Supervising treasury management staff.

- e) Ensuring appropriate segregation of duties
- f) Monitoring performance on a day-to-day basis.
- g) Submitting management information reports to the Head of Finance and Director of Resources.
- h) Maintaining relationships with third parties and external service providers and reviewing their performance.

#### **5.4.4 The Head of the Paid Service – the Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Director of Resources reports regularly to the full Council on treasury policy, activity and performance.

#### **5.4.5 The Monitoring Officer – the Head of Legal Services**

The responsibilities of this post will be: -

- a) Ensuring compliance by the Director of Resources with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Director of Resources when advice is sought.

#### **5.4.6 Internal Audit**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

### **5.5 ABSENCE COVER ARRANGEMENTS**

The Council establishes the dealing desk work plan in advance and currently has 4 officers fully trained to deal. In the event of the person due to be dealing being off one of the 3 other officers can cover. At any one time there are two dealing officers in on a given day.

### **5.6 DEALING LIMITS**

The following posts are authorised to deal: -

- Simon Wiles (£15m)
- James Drury (£15m)
- Peter Steed (15m)
- Tom Wilkinson (£8m)
- Janet Lornie (£8m)
- Steve Morton (£8m)

### **5.7 LIST OF APPROVED BROKERS**

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

### **5.8 POLICY ON BROKERS' SERVICES**

It is this Council's policy to rotate business between brokers providing the best deal is taken i.e if two brokers are offering the same rate.

### **5.9 POLICY ON TAPING OF CONVERSATIONS**

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

**5.10 DIRECT DEALING PRACTICES**

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

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

**5.11 SETTLEMENT TRANSMISSION PROCEDURES**

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For payments a transfer will be made through the CHAPS system to be completed by 3.00 pm on the same day. The Council uses the CHAPS system supplied by HSBC, authorized limits are set up in line with authorized signatory limits with the bank.

**5.12 DOCUMENTATION REQUIREMENTS**

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

**5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.**

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

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS**

### **6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT**

6.1.1 The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Executive and then to the full Council for approval before the commencement of each financial year.

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

6.1.3 The Treasury Management Strategy Statement is concerned with the following elements:

- Prudential Indicators
- current treasury portfolio position
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- investment strategy
- debt rescheduling
- any extraordinary treasury issue

6.1.4 The Treasury Management Strategy Statement will establish an interest rate position based on the view of future interest rate movements (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

### **6.2 POLICY ON INTEREST RATE EXPOSURE**

6.2.1 The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential Indicators.

6.2.2 The Director of Resources is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Resources shall submit the changes for approval to the full Council

### **6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY**

An annual report will be presented to the Executive member and to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of June. This report will include the following: -

- a. a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- b. transactions executed and their revenue (current) effects;
- c. report on risk implications of decisions taken and transactions executed;
- d. monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements;
- e. monitoring of compliance with powers delegated to officers;
- f. degree of compliance with the original strategy and explanation of deviations;
- g. explanation of future impact of decisions taken on the organization;
- h. measurements of performance;
- i. report on compliance with CIPFA Code recommendations.

#### **6.4 MANAGEMENT INFORMATION REPORTS**

Management information reports will be prepared every 3 months by the Corporate Finance Manager and will be presented to the Director of Resources.

These reports will contain the following information: -

- a) A summary of transactions executed and their revenue effect (current effects);
- b) measurements of performance including effect on loan charges/investment income;
- c) degree of compliance with original strategy and explanation of variances.
- d) Any non compliance with Prudential limits or other treasury management limits.

#### **6.5 PERIODIC MONITORING COMMITTEE REPORTS**

The Executive Member Corporate Services will receive and consider a half yearly review of treasury management activities during the period including details of any debt rescheduling undertaken.

## **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

### **7.1 STATUTORY/REGULATORY REQUIREMENTS**

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

### **7.2 ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

### **7.3 SAMPLE BUDGETS / ACCOUNTS / PRUDENTIAL INDICATORS**

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

### **7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS.**

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

### **7.5 Budget Monitoring Report**

In addition to the quarterly budget monitoring stats presented to the Director of Resources (as set out in section 6.4) the authority produces the following reports:

- three Corporate Monitoring Reports in line with the Corporate Monitoring Cycle
- Half yearly and outturn report on Treasury Management Performance

These reports are intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.



## **TMP 8 CASH AND CASH FLOW MANAGEMENT**

### **8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

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

### **8.2 BANK STATEMENTS PROCEDURES**

The Council receives a daily download of account balances and key transactions from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

Balances are checked daily with a formal bank reconciliation to the ledger being undertaken on a quarterly basis by the senior accounting technician.

### **8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments in order to comply with BVPI 8.

### **8.4 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS**

The exchequer manager is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on a monthly basis to assist in updating the cash flow models. Daily details of payment runs are also provided.

### **8.5 PROCEDURES FOR BANKING OF FUNDS**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the Chief Cashier to deposit in the Council's banking accounts. The Chief Cashier will notify the dealing desk officer each morning of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

### **8.6 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Director of Resources following a cost benefit appraisal of prepayment proposals. For material sums a formal report would be taken to the Executive.

## TMP 9 MONEY LAUNDERING

### **9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS**

The Council does not accept loans from individuals.

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

When repaying loans, the procedures in 9.2 will be followed to check the bank details of the recipient.

### **9.2 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through the FSA website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

All transactions will be carried out by CHAPS for making deposits or repaying non PWLB loans. PWLB loan repayments are taken via Direct Debit on specified dates.

### **9.3 PROCEEDS OF CRIME ACT 2002 (POCA)**

Please find below an explanation of the current responsibilities of local authorities:-

*The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.*

*The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore, whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer (F.D., Treasurer, Head of Legal) to whom suspicions must be reported and who is responsible for deciding whether to pass the report to NCIS.*

*NCIS*

*PO BOX 8000*

*LONDON SE11 5EN*

*[www.ncis.co.uk](http://www.ncis.co.uk)*

The Corporate Finance Manager is conversant with the requirements of the Proceeds of Crime Act 2002 and will train the following staff in being diligent to be alert for suspicious transactions: -

- treasury management
- other as appropriate

The Council has appointed Chief Monitoring Officer to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

## **TMP 10 STAFF TRAINING AND QUALIFICATIONS**

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

Additionally, training may also be provided on the job and it will be the responsibility of the Corporate Finance manager to ensure that all staff under his / her authority receive the necessary training.

### **10.1 DETAILS OF APPROVED TRAINING COURSES**

Treasury management staff will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

### **10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF**

The Corporate Finance Manager will maintain records on all staff and the training they receive.

### **10.3 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)**

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

## TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

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

#### 11.1.1 Banking services

- a) Name of supplier of service is the HSBC Bank.
- b) The branch address is:  
13 Parliament Street  
York  
Tel :- Chris Bennett 08455849498
- c) Contract commenced January 2004 and runs for 4 years until December 2007.
- d) Cost of service is variable depending on schedule of tariffs and volumes
- e) Payments due monthly

#### 11.1.2 Money-broking services

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers wherever possible.

The performance of brokers is reviewed by the Director of Resources every quarter to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Corporate Finance Manager.

Name of broker	address and tel. no.
Garban Inter-Capital	02075323550
Prebon-Marshall Yamane	02072007393
Martin Brokers	01312267401
Sterling	02074072593

#### 11.1.3 Consultants'/advisers' services

##### Treasury Consultancy Services

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

The performance of consultants will be reviewed by the Corporate Finance Manager every 6 months to check whether performance has met expectations.

- a) The name of the supplier of this service is Sector Treasury Services Limited
- b) The address is:  
Innovation Court  
New Street  
Basingstoke  
Hampshire  
RG21 7JB  
Tel: 0870 1916800
- c) Contract commenced 01/04/2004 and runs for 3 years 31/03/2007.
- d) Cost of service is £12,500.00 per year.
- e) Payments due one year in arrears on 31<sup>st</sup> March.

##### Leasing Consultancy Services

- a) The name of the supplier of this service is Sector Treasury Services Limited.
- b) The address is:

Innovation Court  
New Street  
Basingstoke  
Hampshire  
RG21 7JB  
Tel: 0870 1916800

- c) Contract started on the 27th July 2004 and will run until 30<sup>th</sup> March 2009.
- d) Fee is agreed at 0.5% of the capital cost of drawdown.

#### **11.1.6 Credit rating agency**

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

#### **11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES**

Procedures for tendering are in line with the Councils Financial Regulations 2006.

## **TMP 12 CORPORATE GOVERNANCE**

### **12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -
  - Treasury Management Policy Statement
  - Treasury Management Strategy Statement [includes Prudential Indicators and Annual Investment Strategy/
  - Annual Treasury Report
  - Annual accounts
  - Annual budget
  - 3 Year Capital Plan
  - Minutes of Council / Cabinet / committee meetings