

**DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY**

**TREASURY MANAGEMENT POLICY**

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## **1. GENERAL STATEMENT OF TREASURY MANAGEMENT POLICY**

- 1.1 The Authority defines its treasury management activities as ‘the management of its cash flow, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.
- 1.2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 1.3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance techniques within the context of effective risk management.

## **2. DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY - TREASURY MANAGEMENT PRACTICES**

- 2.1. The following Treasury Management Practices (TMPS), as recommended by the Chartered Institute of Public Finance and Accountancy, set out the manner in which the Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. They set out in broad terms how the Authority’s General Statement on Treasury Management Policy will be implemented. The execution and administration of treasury management decisions has been delegated to the Treasurer, who will act in accordance with both the General Statement on Treasury Management Policy and the Treasury Management Practices. The Schedules at Section 3 establish detailed parameters within which delegated officers may undertake treasury operations in accordance with the Treasury Management Practices.

### ***Risk Management***

- 2.2. The responsible officer (the Treasurer) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect, in accordance with the reporting procedures in TMP6 below.

#### ***(a) Liquidity Risk Management***

- 2.3. The Authority will ensure that 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.

#### ***(b) Interest Rate Risk Management***

- 2.4. The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

(c) Exchange Rate Risk Management

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

(d) Inflation Risk Management

- 2.6. The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Authority as an integral part of its overall exposure to inflation.
- 2.7. The Authority will achieve the above objectives by the prudent use of its approved financing and investment instruments, methods and techniques primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

(e) Credit and Counter-party Risk

- 2.8. The Authority regards a prime objective of its treasury management activities to be the security of the principal sum it invests. It recognises the need to have a formal counter-party policy in respect of those organisations with which funds may be deposited, from which it may borrow, or with whom it may enter into other financing arrangements. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards counterparties with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those counterparties from which it may borrow, or with whom it may enter into other financing arrangements.

(f) Refinancing Risk Management

- 2.9. The Authority will ensure that any borrowing, private financing or partnership arrangements are negotiated, structured and documented, and the maturity profile of the money so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.
- 2.10. It will actively manage its relationships with its counter-parties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

*(g) Legal and Regulatory Risk Management*

- 2.11. The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Authority.

*(h) Fraud, Error and Corruption, and Contingency Management*

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

*(i) Market Risk Management*

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

***Best Value and Performance Measurement***

- 2.14. The Authority is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of this aim, within the framework set out in its treasury management policy statement.
- 2.15. Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the Authority's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives and of the scope for other potential improvements. The performance of the treasury management function will be measured using appropriate criteria and benchmarks.

***Decision-making and analysis***

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

***Approved Instruments, Methods and Techniques***

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

***Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements***

- 2.18. The Authority 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.
- 2.19. 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.
- 2.20. If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.
- 2.21. The responsible 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.
- 2.22. The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 2.23. The responsible officer will fulfil all delegated responsibilities in accordance with the organisation's Policy and TMP and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

***Reporting Requirements and Management Information Arrangements***

- 2.24. The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 2.25. The Authority has delegated authority to the Resources Committee for the effective scrutiny of its treasury management strategy and policies and for the implementation and regular monitoring of its treasury management policies and practices.
- 2.26. As a minimum, the Authority will receive:
- an annual statement on the strategy and plan to be pursued in the coming year;
  - a mid-year review of its treasury management policies, practices and activities; and



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- an annual statement 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 TMP.

2.27. Accordingly, the Authority has adopted the following reporting arrangements:

<b>Area of Responsibility</b>	<b>Authority/Committee/Officer</b>	<b>Frequency</b>
Treasury Management Policy and Management Practices	Full Authority	Initial adoption in 2010
Revisions to Treasury Management Policy and Management Practices	Full Authority	As and when required (reviewed annually as part of constitutional governance framework review reported to Annual Authority meeting).
Treasury Management Strategy and Minimum Revenue Provision (MRP) Statement	Full Authority	Annual before the start of each financial year
Revisions to Treasury Management Strategy and Minimum Revenue Provision (MRP) Statement	Full Authority	Mid-year
Annual Treasury Outturn Report	Resources Committee through to Full Authority	Annually by 30 September after the end of the financial year
Treasury Management Monitoring Reports	Resources Committee	Quarterly

### ***Budgeting, Accounting and Audit Arrangements***

- 2.28. The responsible officer will prepare, and the Authority will approve and, if necessary, from time to time will amend, an annual budget for 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 Best Value and Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.
- 2.29. The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

- 2.30. The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

### ***Cash and Cash-flow Management***

- 2.31. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity Risk Management.

### ***Money laundering***

- 2.32. The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter-parties and reporting suspicions, and will ensure that staff involved in this are properly trained.

### ***Staff Training and Qualifications***

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

### ***Use of External Service Providers***

- 2.34. The Authority recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to 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 responsible officer.

### ***Corporate Governance***

- 2.35. The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability. The Authority has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### 3. **SCHEDULES TO THE STATEMENT OF TREASURY MANAGEMENT PRACTICES**

#### **SCHEDULE 1 Treasury Management Practice No. 1 - Risk Management**

##### **(a) Liquidity**

- (i). The Authority will maintain sufficient cash balances to meet its daily cash requirements without recourse to borrowing. Short-term borrowing will only be undertaken to cover unforeseen cash requirement. It will not form part of an investment strategy.
- (ii). Approved sources of short-term borrowing:
  - The Authority negotiates an overdraft facility of £0.1 million with its bankers, Barclays bank PLC, on an annual basis.
  - The Authority accesses temporary loans either through money brokers or directly from financial institutions/other local authorities.

##### **(b) Interest Rate**

- (i). Minimum/maximum proportions of variable rate debt/interest. The maximum proportion of interest on borrowing which is subject to variable rate interest will be determined annually, be kept under review and reported to the Authority through the Treasury Strategy.
- (ii). Policies concerning the use of financial derivatives and other instruments for interest rate management:
  - *Forward Dealing*  
Forward dealing can be undertaken for a period up to 12 months in advance of the transaction
  - *Lenders Option Borrowers Option*  
Consideration will be given to use dependent upon the interest rate environment and the comparative forms of finance from elsewhere.

##### **(c) Exchange Rate**

The Authority may have some exposure to exchange rate movements from time to time because expenditure or income is denominated in a foreign currency but these transactions will generally be small and will normally be converted out of or into sterling at the time of each transaction.

##### **(d) Inflation**

###### **(i). 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.

(ii). Approved Criteria for Managing Changes in Inflation Levels

Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

**(e) Credit and Counterparty Policies**

(i). Criteria to Be Used For Creating/Managing Approved Counterparty Lists/Limits

The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits. The limits will be compiled in conjunction with the Authority's advisers, Link Market Services.

This Authority uses the creditworthiness service provided by Link Market Services. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

The Link Market Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

(ii). Approved Methodology for Changing Limits and Adding/Removing Counterparties

The responsible officer or other delegated officer will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. The responsible officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria above.

All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

**(f) Refinancing**

(i). Debt/Other Capital Financing Maturity Profiling, Policies and Practices

The Authority will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review and reported annually as part of the Annual Treasury Strategy.

The responsible officer will by the 31 March of each year produce a long term borrowing strategy detailing:

- The projected borrowing requirement for the subsequent year;
- The recommended source and period over which such borrowing is to be effected; and
- An assessment of the impact of this borrowing on the maturity profile.

All loan debt rescheduling will be reported to the Authority as part of the outturn report.

(ii). Projected capital investment requirements

The responsible officer will prepare a three-year plan for capital expenditure for the Authority. The capital plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

(iii). Policy concerning limits on revenue consequences of capital financing

The revenue budget for loan charges is based on the capital plan. The main source of borrowing for the Authority is the Public Works Loan Board (PWLb). The prudential indicators control the limits on revenue consequences.

**(g) Legal and Regulatory**

(i). References to relevant statutes and regulations

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

- CIPFA Treasury Management Code of Practice 2017;
- CIPFA Treasury Management Guidance Notes 2018;
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities;
- SI 2003 No 3146 Local Authorities (Capital Finance and Accounting) (England) Regulations and associated commentary;
- Capital Finance: Guidance on Local Government Investments (2018);
- Local Government Act 2003;
- CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code);
- The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- The Authority's [Contract Standing Orders](#);
- The Authority's [Financial Regulations](#); and
- The Authority's [Scheme of Delegations](#).

(ii). Procedures for evidencing the Authority's powers/authorities to counterparties

The Authority will prepare, adopt and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement, stating the overriding principles and objectives of its treasury management activities and, as an integral part of that Statement; and
- Treasury Management Practices, setting out the manner in which the Authority will achieve those principles and objectives, and prescribing how it will manage and control those activities.

(iii). Required information from counterparties concerning their powers / authorities

Lending shall only be made to counterparties on the Authorised list. This list has been compiled from advice from the Authorities treasury advisers, primarily based upon credit ratings of Fitch, Moody's and Standard and Poor's Investor Services.

(iv). Statement of the Authority's political risks and management of same

The responsible officer shall take appropriate action with the Authority and the Chief Fire Officer to respond and manage appropriately political risks such as change of majority Group, Leadership etc.

**(h) Fraud, error and corruption, and contingency management**

(i). Details of systems and procedures to be followed, including Internet services

**Authority:**

The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the responsible officer or authorised persons.

**Occurrence:**

A detailed register of loans and investments is maintained as part of the treasury management arrangements. This is independently checked to the ledger balance via the external audit process.

Adequate and effective cash flow forecasting records are maintained within the treasury management arrangements to support the decision to lend or borrow.

A written acknowledgement of the deal is sent promptly to the lending or borrowing institution, as required.

Written confirmation is received.

A broker note showing details of the loan arranged confirms all transactions placed through brokers.

**Completeness:**

The loans register is updated to record all lending and borrowing. This includes the date of the transaction etc.

**Measurement:**

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority.

**Timeliness:**

The Treasury Management manual system highlights that money borrowed or lent is due to be repaid. On a daily basis the Finance department will obtain from the Authority's bankers the intraday balance and ensure that allowance will be made for repayment/receipt of loans/investment due.

**Regularity:**

All lending is only made to institutions on the Approved List.

All loans raised and repayments made go directly to and from the institutions bank account.

Authorisation limits are set for every institution.

Brokers have a list of named officials authorised to perform loan transactions.

There is adequate insurance cover for employees involved in loans management and accounting.

The control totals on the treasury management arrangements for borrowing and lending are regularly reconciled with the ledger balance sheet codes.

There is a separation of duties in the Section between the processing of a payment and its checking and authorisation.

The bank reconciliation is carried out monthly from the bank statement to the financial ledger.

**Security:**

Payments can only be authorised in a formal letter by an agreed cheque signatory, the list of signatories having previously been agreed with the current provider of our banking services.

**Substantiation:**

The Treasury Management spreadsheet balances are proved to the balance sheet ledger codes at the end of each month and at the financial year-end. Working papers are retained for audit inspection.

A debt charge/investment income listing is produced every time the debt charges/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year-end and this document is retained for audit inspection.

**(ii). Emergency and contingency planning arrangements**

An electronic record is kept of all treasury management data

If an electronic banking failure:

- CHAPS payments can be given by instruction in person. Balances can also be obtained over the phone; and



- All computer files to be “backed up” on server to enable files to be accessed from remote sites

(iii). Insurance cover details

The Authority has “Fidelity” insurance cover in place to cover the loss of cash by fraud or dishonesty of employees. There is an excess of £5,000 for each and every claim.

The Authority also has a “Professional Indemnity” in place covering loss to the Authority from the actions and advise of its officers which are negligent and without due care. This cover is limited to an aggregate of £5,000,000 with an excess of £5,000 for any one event.

The Authority also has “Business Interruption” cover in place as part of its property insurance. In circumstances of financial loss to the Authority from an interruption to the Treasury function by reason of extensive property damage to the location of the treasury section’s operation in Authority Headquarters, the financial loss would be included within the claim for property damage and be subject to the overall excesses and caps.

(i) Market value of investments

The risk associated with securities whose market value can fluctuate will be controlled by setting limits. These limits will be established in conjunction with the Authorities treasury advisor Link Market Services

**SCHEDULE 2 Treasury Management Practice No. 2 - Best Value and Performance Measurements**

**(a) Methodology to Be Applied For Evaluating the Impact of Treasury Management Decisions**

All treasury decisions are to be evaluated to determine the impact on:

- The Authority's finances
- The aggregate risk profile of the Authority including sensitivity analysis.
- The average debt rate and maturity profile

**(b) To assist in evaluating the impact of treasury management decisions the following will be carried out:-**

- monthly and other periodic reviews carried out by the finance team
- reviews with our treasury management consultants
- annual review as reported to the Authority
- internal audit reviews

**(c) All material decisions will be discussed and reviewed by the Authority's advisor Link Market Services.**

**(d) Policy Concerning Methods for Testing Best Value in Treasury Management.**

**(i). Frequency and Processes for Tendering**

Banking services and other treasury services provided by external providers shall be subject to review by the Head of Finance every 5 years depending on type of contract. The tendering process shall comply with the Authorities Contract Standing Orders and terms of delegation. The terms of any appointment shall be reported to the appropriate committee.

**(ii). Banking Services**

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

**(e) Money-Broking Services**

**(i). Banking Services**

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

The responsible officer has established the under noted list of brokers, which takes account of both prices and quality of services, to obtain funds from the money markets and to place investments in accordance with the Approved List.

- Martin Brokers(UK) PLC
- Tradition UK Ltd

Original Approval Date: 11 April 2007

Revision No. and Date: 1 (March 2009); 2 (Feb 2010); 3 (Feb 2011); 4 (Feb 2012); 5 (July 2012); 6 (Feb 2014 – minor clarification amendments); 7 (May 2016 - minor typographical amendments); 8 (June 2018); 9 (June 2019); 10 (February 2021)

- Prebon Brokers
- King and Shaxson

This list may be revised at any time by the responsible officer.

(ii). Consultants'/Advisers' Services

The Authorities policy is to appoint full-time professional treasury management advisers.

(iii). Policy on External Managers

The Authorities policy is not to appoint external investment managers.

(f) **Methods to be employed for measuring the performance of the Fire and Rescue Authorities Treasury Management Activities**

(i). Benchmarks and Calculation Methodology

(ii). 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

(iii). Investment

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

- in house investments 3 month LIBID rate or equivalent comparison such as SONIA

**SCHEDULE 3 Treasury Management Practice No. 3 - Decision-Making and Analysis**

**(a) Funding, Borrowing, Lending, and New Instruments/Techniques:**

**(i). Records to Be Kept**

The Finance Team has computerised treasury management arrangements. A member of the Finance team will enter details of all transactions carried out into the system.

The record will have the following details relative to each loan or investment:

- Dealer or Broker
- Counterparty
- Interest Rate
- Repayment Date
- Term of Loan
- Loan Type
- Commission
- Transfer arrangements
- Basis on which a particular deal was judged to be the correct one

In addition the following records will be kept:

- Brokers confirmations
- Counterparty confirmations
- Dealing slips

**(b) Processes to Be Pursued**

- Cash flow forecasting – weekly and up to twelve months ahead.
- Investment of surplus cash balances
- Temporary borrowing to cover cash deficits
- Long term borrowing to finance capital expenditure
- Obtaining other forms of financing where that offers best value
- Managing the debt portfolio – maturity profile, debt rescheduling opportunities etc.
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses
- Monitoring of performance; average pool rate, investment earnings rate etc
- All transfers associated with treasury deals are to be certified by the Head of Finance or in their absence the Senior Finance Manager or responsible officer.

**(c) Issues to be addressed.**

- (i). In respect of every decision made the Authority will:
- Above all be clear about the nature and extent of the risks to which the Authority may become exposed
  - Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
  - Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping
  - Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded
  - Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.
- (ii). In respect of borrowing and other funding decisions, the responsible officer will:
- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
  - Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
  - Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
  - Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets.
  - Seek to reduce the overall level of financing costs in initial borrowing decisions and by using debt restructuring
- (iii). In respect of investment decisions, the responsible officer will:
- Consider the optimum period, in the light of cash flow availability and prevailing market conditions
  - Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
  - Determine appropriate credit policy limits and criteria to minimise the Authority's exposure to credit worthiness and other investment risks

**SCHEDULE 4 Treasury Management Practice No. 4 - Approved Instruments, Methods and Techniques**

**(a) 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 Authorities capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Leasing;
- Managing the underlying exchange rate risk associated with the Fire Authorities business activities;

**(b) Approved Instruments for Investments**

Investments will be with those bodies identified by the Authority for its use through the Annual Investment Strategy.

**Country Limits** The Authority will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. At the time of writing this was AA long term and F1+ short term. If there were to be a disorderly Brexit, it is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as there are no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Authority. To ensure the Authority's credit risk is not increased outside the UK, the sovereign rating requirement for investments will be "Non UK countries with a minimum sovereign rating of AA-".

**(c) Non-specified Investments**

Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.

The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However from April 2015 it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the Link Market Services credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in the table below.

The maturity limits recommended will not be exceeded. Under delegated powers, the Section 112 (Treasurer) Officer can set limits that are based on the latest economic conditions and credit ratings.

The below criteria has been amended since last year to reflect the potential for a loan to be made to the Authority's subsidiary company, although this would be subject to terms and conditions as approved by the Authority.

The following table shows those bodies with which the Authority will invest.

Specified Investments	Non Specified Investments
	Subsidiary entities
Deposits with the Debt Management Agency Deposit Facility	
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies.  <b><i>The total amount of non-specified investments will not be greater than £5m in value.</i></b>
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

**(d) Approved Techniques**

- LOBOs – lenders option, borrower's option borrowing instrument
- Forward dealing up to 365 days
- Forward dealing in excess of 366 days subject to maximum portfolio share
- Callable deposits

**(e) Approved Methods and Sources of Raising Finance**

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

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**On Balance Sheet**

Fixed

Variable

PWLB

●

●

Market (long-term)

●

●

Market (temporary)

●

●

Market (LOBOs)

●

●

Local temporary

●

●

Overdraft

●

Internal (capital receipts & revenue balances)

●

●

**Off Balance Sheet**

Leasing

●

●

Deferred Purchase

●

●

**Other Methods of Financing**

Government and EC Capital Grants

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer 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.



## **SCHEDULE 5 Treasury Management Practice No. 5 - Organisation, Clarity and Segregation of Responsibilities, And Dealing**

### **Arrangements**

#### **(a) Limits to Responsibilities/Discretion at Authority Level**

##### **(i). Full Authority**

- Budget consideration and approval
- Set the Prudential Indicators and revise them as and when necessary
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Approval of the delegation of responsibilities
- Receiving and reviewing external audit reports and acting on recommendations

#### **(b) Principles and Practices Concerning Segregation of Duties**

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of broker's confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Production of journal. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto Barclays Internet Banking. Approval and payment.

#### **(c) Statement of Duties/Responsibilities for Each Treasury Post**

##### **(i). Responsible Officer (Section 112 Officer/ Treasurer)**

The responsibilities of this post will be:

- Recommend for adoption, treasury management policy statement for approval, reviewing the same regular, and monitoring compliance
- Submit treasury management reports, Reporting Requirements and Management Information Arrangement

- Submit budgets, budget variations and prudential indicators
- Receive and review management information reports
- Review the performance of the treasury management function and promote best value reviews
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit, and liaison with external audit
- Recommend the appointment of external service providers.
- Recommend to Authority the approval of the Annual Treasury Management Strategies including Investment Strategy

The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The responsible officer may delegate their power to borrow and invest to members of their staff.

The responsible officer and the Monitoring Officer will ensure that the procedure is adhered to, and if not will bring the matter to the attention of elected members as soon as possible

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Monitoring Officer, the Authorities legal advisors and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's [Financial Regulations](#).

It is the responsibility of the responsible officer to ensure that the Authority complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

(ii). Finance Officer

The responsibilities of this post will be:

- 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;
- Submitting management information reports to the responsible officer;
- Identifying and recommending opportunities for improved practices.

(iii). Chief Fire Officer

The responsibilities of this post will be:

- Ensuring that the system is specified and implemented;
- Ensuring that the responsible officer reports regularly to an appropriate Authority Committee on treasury policy, activity and performance.

(iv). Monitoring Officer.

The responsibilities of this post will be:

- Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law;
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice;
- Giving advice to the responsible officer when advice is sought.
- In the role of the Money Laundering Officer ensure compliance with appropriate Money Laundering Regulations.

(v). Internal Audit

The responsibilities of Internal Audit will be:

- Reviewing compliance with approved policy and procedures;
- Reviewing division of duties and operational practice;
- Assessing value for money from treasury activities;
- Undertaking probity audit of treasury function.

**(d) Dealing Limits**

The following daily limit shall apply to the dealing of short-term (Less than 365 days) and long- term (Greater than 365 days) funding and investment decisions:

Position	Daily Limit
Director of Finance (Treasurer)	£15m
Head of Finance, Senior Accountant, Accountant	£10m
Finance Officer, Senior Finance Officer,	£5m

For the avoidance of doubt, all investments will be subject to approval by the Treasurer or an Officer on the Executive Board prior to dealing.

The following limits shall apply to the total invested in each class of investment (percentages refer to the total investment portfolio on the date of investment):

- Banks – the greater of £7m or 20%
- Building Societies – the greater of £4m or 10%

- Money Market Funds – the greater of £8m or 10%
- Debt Management Office – the greater of £10m or 25%
- Local Authorities – the greater of £7m or 10% per Authority

**(e) Direct Dealing Practices**

The Authority will consider dealing direct with counterparties if it is appropriate and the Authority believes that better terms will be available.

There are certain types of accounts and facilities, however, where direct dealing is required, e.g.; Business reserve accounts and Money Market Funds

**(f) Transmissions Procedures**

**(i). Settlement transmission**

The transfer of funds for deals arranged shall be made via the Fire Authority's on-line banking system which is presently Barclays internet banking

**(g) Segregation of duties**

Two separate officers are required to arrange the transfer, one officer to input the transfer details and one officer to check and authorise the release of the transfer. The system automatically prevents the same officer inputting and authorising the release of the payment.

**(h) Password protection**

Access to the on-line banking system is controlled by passcodes and banking cards with access to functions within the system being controlled by the responsible officer.

**(i) Procedures & confirmation of deals**

Details of the deal transactions to be transferred using computer banking will be prepared by the relevant Officer and the transfer will be input into the banking system for authorisation by one of the authorising officers. The Officer preparing the deal will issue the confirmation notice to the counterparty.

**(j) Documentation Requirements**

The member of finance preparing the deal will record the following details relative to each loan or investment:

- Dealer or broker
- Counterparty
- Interest rate
- Dealing date
- Interest payment date
- Repayment date
- Term of loan
- Loan type

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- Commission if applicable
- Transfer arrangements
- Basis on which the particular deal was judged to be the correct one

**SCHEDULE 6 Treasury Management Practice No. 6 - Reporting Requirements and Management Information Arrangements**

**(a) Annual Treasury Management Strategy**

- (i). The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted by the responsible officer to the Authority for approval before the commencement of each financial year.
- (ii). The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Authority may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
- (iii). The Treasury Management Strategy is concerned with the following elements:
  - treasury limits in force which will limit the treasury risk and activities of the Authority;
  - treasury indicators;
  - the current treasury position;
  - the borrowing requirement;
  - prospects for interest rates;
  - the borrowing strategy;
  - policy on borrowing in advance of need;
  - debt rescheduling;
  - the investment strategy;
  - creditworthiness policy;
  - policy on use of external service providers;
  - capital plans and prudential indicators; and
  - the Minimum Revenue Statement (MRP) strategy
- (iv). The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

**(b) Policy on Interest Rate Exposure**

- (i). The Authority approves before the beginning of each financial year a number of treasury limits. These are included in the Treasury Management Prudential Indicators.
- (ii). The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the appropriate Committee.

**(c) Annual Report on Treasury Management Activity**

***(i). Submission to Committee***

An Annual Report will be presented to the appropriate Committee at the earliest practicable meeting after the end of the financial year.

***(ii). Content***

The report will include:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results
- Transactions executed and their revenue (current) effects
- Report on risk implications of decisions taken and transactions executed
- Monitoring of compliance with approved policy, practices and statutory/ regulatory requirements
- Monitoring of compliance with powers delegated to officers
- Degree of compliance with the original strategy and explanation of deviations
- Explanation of future impact of decisions taken on the organisation
- Measurements of performance
- Report on compliance with CIPFA Code recommendations

**(d) Internal reporting**

***(i). Quarterly Report***

The Finance Officer will produce a report on a quarterly basis for the responsible officer that summarises the borrowing and lending activity for the month.

**SCHEDULE 7 Treasury Management Practice No. 7 - Budgeting, Accounting and Audit Arrangements**

**(a) 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.

**(b) 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. The Authority adopts in full the principles set out in CIPFA's Treasury Management in the Public Link - Code of Practice together with those of its specific recommendations that are relevant to the Authorities treasury management activities.

**(c) Budgets/Accounts/Prudential Indicators**

The responsible officer will prepare a three-year medium term financial plan for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years, including prudential indicators. This will bring together all the costs involved in running the function, together with associated income. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required.

**(d) List of Information Requirements of External Auditors**

- Calculation of the Minimum Revenue Provision
- Prudential Indicators
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Maturity analysis of loans outstanding
- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- 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
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Principal and interest charges reports from Treasury Management System



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**(e) Budget Monitoring Report**

Monthly Budget Monitoring reports are produced for the responsible officer, whilst a budget monitoring report goes to each meeting of the relevant committee. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position. Details of Treasury Management activities are included within this report.

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**SCHEDULE 8 Treasury Management Practice No. 8 - Cash and Cash Flow Management**

**(a) Arrangements for Preparing/Submitting Cash flow Statements**

The annual, monthly and weekly 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.

**(b) Payment Scheduling and Agreed Terms of Trade with Creditors**

The Authority's policy is to pay creditors within 28 days (or otherwise agreed terms) of the invoice date and this effectively schedules the payments.

**SCHEDULE 9 Treasury Management Practice No. 9 - Money Laundering**

**(a) Procedures for Establishing Identity/Authenticity of Lenders**

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

**(b) Methodologies for Identifying Deposit Takers**

In the course of its Treasury activities, the Authority will only lend money to or invest with those counterparties that are on its approved lending list.

In terms of borrowing money, if an institution not known to the Authority offers to lend it money the identity of the lender will first be checked to the list of authorised institutions produced by the Authorities Treasury Management Adviser and then to the FSA website.

**(c) Money Laundering Reporting Officer**

The role of the Money Laundering Reporting Officer is to take an overview of the systems in place for detecting Money Laundering and to be responsible for reporting suspicious transactions to the relevant authorities.

The Authority has designated the Monitoring Officer as a Money Laundering Reporting Officer who will ensure compliance with the appropriate Money Laundering Regulations as identified in the Money Laundering Sourcebook Instrument 2001 and subsequent amendments.

The MLRO will train staff to recognise transactions that may indicate money laundering and to ensure that staff are aware of part 7 of the Proceeds of Crime Act 2002 which deals with money laundering.

**SCHEDULE 10 Treasury Management Practice No. 10 - Staff Training and Qualifications**

- (a). The Authority recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. Most training will be received on the job and it will be the responsibility of the responsible officer to ensure that all staff under their authority receives proper training before starting day-to-day duties. Treasury management staff will go on courses provided by our treasury management advisers, CIPFA etc.
- (b). A record will be maintained on all staff and the training they receive. This will be reviewed every 6 months with the responsible officer to check that proper standards of training are being maintained and to deal with any special requirements.
- (c). There is currently no approved treasury qualification.
- (d). The responsible officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP.

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**SCHEDULE 11 Treasury Management Practice No. 11 - Use of External Service Providers**

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

**(a) Banking Services**

Barclays Bank

Contract was renewed in 2020 and runs for 3 years until May 2023

**(b) Money Broking Services**

- Martin Brokers(UK) PLC
- Tradition UK Ltd
- Prebon Brokers
- King and Shaxson

**(c) Treasury Advisers**

Name of suppliers - Link Market Services plc

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**SCHEDULE 12 Treasury Management Practice No. 12 - Corporate Governance**

**(a) List of Documents to be made Available for Public Inspection**

- Annual Budget
- Treasury Management Policy Statement
- Treasury Management Strategy
- Annual Treasury Report
- Access to minutes on the Fire and Rescue Authorities website
- Annual Accounts