Appendix G

TREASURY MANAGEMENT POLICY STATEMENT

INTRODUCTION AND BACKGROUND

In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.

Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

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

The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit and Governance Committee and for the execution and administration of treasury management decisions to the Director of Finance, Development and Regeneration and Deputy Chief Executive, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

This organisation defines its treasury management activities as the management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

This Council 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, and any financial instruments entered into to manage these risks.

This Council 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 value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

The Council's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's objective when investing treasury monies is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve, where appropriate, a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK MANAGEMENT

ESG is an area that CIPFA is still working on after the 2022 revised codes. In particular, work will be needed to coordinate the priority which needs to be given to issues of security, liquidity and yield (SLY) while also accommodating ESG principles as a fourth priority and principle to apply.

The assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical treasury-type investments, is currently difficult to achieve. CIPFA, therefore, recommends authorities to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.

CIPFA does not expect that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

Furthermore, authorities will also need to be clear that when choosing between two counterparties that pass all relevant "security" tests, that the additional implementation of an ESG policy may mean that a lower investment rate is achieved by choosing the counterparty that passes the authorities ESG requirements.

Typical ESG considerations are shown below.

- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- Governance: Management structure, governance structure, group structure, financial transparency.

TREASURY MANAGEMENT PRACTICES

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

TMP1 TREASURY RISK MANAGEMENT

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

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

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

[1] Credit and counter party risk management

The Authority will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and it will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the schedule to this document.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

The Authority's credit and counterparty policies set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and these practices do not currently include ESG scoring or other real-time ESG criteria at individual investment level.

[2] Liquidity risk management

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

This authority will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

[3] Interest rate risk management

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

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

[4] Exchange rate risk management

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

[5] Inflation rate risk management

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

[6] Refinancing risk management

The Authority will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

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

[7] Legal and regulatory risk management

The Authority will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] Counterparty credit risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions the authority may affect 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.

[8] Operation risk, including fraud, error and corruption

The Authority will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements to these ends.

[9] Price risk management

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

TMP2 PERFORMANCE MEASUREMENT

The Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

TMP3 DECISION MAKING AND ANALYSIS

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

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Authority has reviewed its classification with financial institutions under MiFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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

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

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

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

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

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

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

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

As a minimum:

The Authority (or, as it's representative, to Audit & Governance Committee) will receive:

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

Audit & Governance Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit & Governance Committee, will have responsibility for the scrutiny of treasury management policies and practices.

The authority should report the treasury management indicators and any other investment indicators required by regulation as detailed in their sector-specific guidance notes.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare – and this organisation will approve and, if necessary, from time to time will amend – an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 CASH AND CASH FLOW MANAGEMENT

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[2] Liquidity risk management, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).

TMP9 MONEY LAUNDERING

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

TMP10 STAFF TRAINING AND QUALIFICATIONS

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

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

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

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 that 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. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

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

TMP12 CORPORATE GOVERNANCE

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

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

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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

TMP1 RISK MANAGEMENT

1.1 LIQUIDITY

1.1.1 Cash Flow

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

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

This record will be maintained for a minimum period of 12 months ahead of current date plus a high level view across the medium term. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

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

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

The Authority also uses various Call / Reserve Accounts and Money Market Funds to manage its liquidity requirements. These are named on the Authority's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Authority's investment strategy.

1.1.3 Details of Short-Term borrowing facilities

Temporary borrowing up to 1 year through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Authority before the start of each financial year.

1.2 INTEREST RATE RISK MANAGEMENT

1.2.1 Guidelines for managing changes to interest rate levels

The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.

The Authority will consider matching the level of borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.

Interest rate forecasts are provided by the Authority's Treasury Management Advisors and are closely monitored by the Chief Accountant. Variations from original estimates and their impact on the Authority's debt and investments are notified to the Audit and Governance Committee as necessary.

Alternatively, the Authority may consider forward starting loans where the interest rate is agreed and fixed in advance but the cash is received at a later date. This would enable certainty of cost to be achieved without suffering a 'cost of carry' in the intervening period. There is, however, a risk in that interest rates may fall in the intervening period, however the Authority is committed to the pre-agreed drawdown of the loan on the relevant date at the higher rate.

For its investments, the Authority may consider dealing from forward periods dependent upon market conditions. The Authority's counterparty term limits will apply and will include the forward period of the investment. There are, however, risks (i) that interest rates may rise in the intervening period and/or (ii) the creditworthiness of the borrower has deteriorated during the forward period, but the Authority is committed to the pre-agreed lending of monies to the counterparty on the relevant date.

1.2.2 Proportions of fixed/variable rate debt

Borrowing/investments may be at a fixed or variable interest rate. In setting its forward Treasury Strategy on an annual basis, the Authority will determine the necessary degree of certainty required for its capital plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market condition.

A fall in interest rates is beneficial for variable rate debt and short-term borrowing which needs to be refinanced, but not for variable rate investments.
Conversely, a rise in interest rates is beneficial for short-term investments which can be reinvested at higher rates but will be a cost for variable rate borrowing or short-term borrowing which needs to be refinanced.

The Authority sets an Interest Rate Risk indicator as part of its Treasury Management Strategy to control exposure to interest rate risk. This is set as
(a) Upper limit on one-year revenue impact of a 1% rise in interest rates and (b) Upper limit on one-year revenue impact of a 1% fall in interest rates. The Interest Rate Risk indicator is not mandatory, but CIPFA encourages its use. The indicator above matches the one in the statement of accounts disclosure notes.

1.2.3 Policies concerning the use of financial derivatives for interest rate management

The Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

1.2.4 Negative Interest Rates

Should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.

1.3 EXCHANGE RATE RISK MANAGEMENT

1.3.1 Approved criteria for managing changes in exchange rate levels

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

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

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

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

1.4 CREDIT AND COUNTERPARTY RISK

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

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

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

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

4. The Authority's Treasury Management Advisors provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account including information on corporate developments and market sentiment towards investment counterparties.

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

   Fitch
   Standard & Poor's

Moody's Investors Services

6. Limits will be as set within the annual Treasury Management Strategy reported to Cabinet and Council.

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

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

Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on [the next working day] will be made with that organisation until the outcome of the review is announced.

1.5 REFINANCING RISK

The Prudential Code requires that:

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

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

To assist with long-term borrowing decision making the Authority creates, with advice and assistance from its treasury advisor, a '**Liability Benchmark' [LB]** which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

The LB is represented as a graph in the annual treasury management strategy. It will be updated regularly through the year by the Authority in conjunction with the treasury management advisors with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

Based on the output of the Liability Benchmark and the Authority's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Authority's Prudential Indicators and the Annual Treasury Management Strategy.

Other Considerations;

- A maturity profile should be prepared and maintained covering all the authority's long-term borrowings.
- All refinancing of loans should be at the discretion of the Director of Finance, Development and Regeneration and Deputy Chief Executive.
- Any premature repayment or refinancing of existing loans may have a premium attached, which may have a revenue impact. Any such transactions will be at the discretion of the Director of Finance, Development and Regeneration and Deputy Chief Executive.

1.6 LEGAL AND REGULATORY

1.6.1 References to relevant statutes and regulations

The treasury management activities of the Authority shall comply fully with statute and regulations and have regard to statutory guidance and recognised Codes of Practice.

To demonstrate openness and accountability and to minimise the risk of being challenged over whether the Authority pursued due processes, the Authority will maintain an audit trail of treasury management decisions and transactions.

This not only dovetails with transparency on the Authority's decision-making process and assessment of the effectiveness of TM decisions, it also helps if it becomes necessary to demonstrate the legality or probity of transactions.

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

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

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

1.6.3 Markets in Financial Instruments Directive II (MiFID II) changed

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies.

Given the size and range of the Authority's treasury management activities, the Director of Finance, Development and Regeneration and Deputy Chief Executive believes this to be the most appropriate status.

1.6.4 Statement on the Authority's political legislative or regulatory risks

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

1.7 OPERATIONAL RISK, INCLUDING FRAUD, ERROR AND CORRUPTION

1.7.1 Details of systems and procedures to be followed

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

1.7.2 Emergency and contingency planning arrangements

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

1.7.3 Insurance cover details

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

1.7.4 List of authorised officers

The Chief Accountant shall maintain a list of officers authorised to deal on behalf of Stockton Council and Tees Valley Combined Authority in respect of investing short-term cash balances.

1.7.5 Chaps transactions

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

1.8 PRICE RISK

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

1.9 INFLATION RISK MANAGEMENT

Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation (within reason and without taking undue risk), in order to maintain the spending power of the sum invested.

The Authority will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

TMP2 PERFORMANCE MEASUREMENT

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

Monitoring of the outcome of treasury management activity against Prudential Indicators (PIs) approved by the Authority will be carried out as part of the monitoring reports to the Audit and Governance Committee.

The semi-annual and year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.

As the Authority's treasury activities generally involves both borrowing and lending at various times will measure the performance of the borrowing and investment portfolios on an individual as well as net treasury basis.

The Authority participates in the Treasury Management Advisor's quarterly investment benchmarking and from time to time, other benchmarking such as for Balance Sheet and Debt.

2.2 POLICY CONCERNING METHODS FOR TESTING VALUE IN TREASURY MANAGEMENT CONTRACTS

2.2.1 Banking services

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

2.2.2 Money-broking services

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

2.2.3 Consultants / advisers services

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

- Consultancy services are retendered or renegotiated every 3 years.

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

Treasury management activity is reviewed regularly against strategy and prevailing economic and market conditions through the various Treasury Management Reports to the Audit and Governance Committee.

2.4 BENCHMARK AND CALCULATION METHODOLOGY

Performance measured against Annual Treasury Management Strategy targets.

2.4.1 Debt management

a) Average rate on all external debt
b) Average rate on gross borrowing vs weighted average maturity
c) Average rate on internal borrowing
d) Percentage of debt maturing in (i) 12 months and (ii) 12-24 months which will need refinancing
e) Average period to maturity of new loans in previous year
f) Percentage of LOBO loans with call frequency of (i) six months, (ii) 12 months, (iii) 2 years (iv) 3-5 years (v) greater than 5 years

2.4.2 Investment

a) Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.
b) Externally Managed Investment Returns – income return and capital growth/loss
c) Credit risk and credit profile
d) Volatility of funds operating on a variable net asset value (VNAV) basis

TMP3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/ TECHNIQUES

The Director of Finance, Development and Regeneration and Deputy Chief Executive has delegated powers to carry out the Authority's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Authority.

3.1.1 Records to be kept

The Authority will maintain a record of all treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.

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

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

3.1.2 Processes to be pursued

The processes to be followed will be in keeping with TMP4 *Approved instruments, methods and techniques*.

3.1.3 Issues to be addressed

3.1.3.1 In respect of every decision made the Authority will:

a) Above all be clear about the nature and extent of the risks to which the Authority 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 certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
d) Be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail.
e) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.
f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.
g) Follow best practice in implementing the treasury transaction

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

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

b) Evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
e) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets
f) Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

In respect of investment decisions, the Authority will:

a) Determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies
b) Consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested
c) Consider whether monies can be used in lieu of externally borrowing
d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
e) Consider alternative investment products and techniques available, if appropriate.

3.2 Capital expenditure and investment plans

The Prudential Code requires the Authority to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Authority. Therefore, effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

The Prudential Code encourages determining spending priorities and affordability criteria. The fundamental objective in the consideration of the affordability of the Authority's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits.
In considering the affordability of the capital plans, the Authority is required to consider all of the resources available to it or estimated for the future, together with the totality of the capital plans, income and expenditure forecasts.

If the Authority has or is considering commercial investments: The risks of the Authority's commercial investments should be proportionate to the Authority's overall capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the Authority.

3.3 Major treasury decisions

As a public service organisation, the Authority will demonstrate openness and accountability in treasury management activities and will create and maintain an audit trail of treasury management decisions.

3.4 Borrowing Purpose

The 2021 Prudential Code is clear that in order to comply with this Code, an authority must not borrow to invest primarily for financial return.

It is not prudent for the Authority to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the Authority's functions and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

The Statutory Guidance of Local Authority Investments in England 2018 considers that borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles in the statutory framework. If the Authority chooses not to comply with this principle in order to invest in property or other financial assets for commercial return, then the Authority must make additional disclosures about the reasons for doing so.

3.5 Process

Liability benchmark [LB]: The Liability Benchmark is a long-term measure of the underlying need to borrow for all purposes over the long term and is based on its current capital programme and other forecast cash flow movements.

It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing (or long term investments, if the Authority is a net investor) is more appropriate.

The LB is an important borrowing risk management measure and will be inclusive in the decision-making process so as to prevent over-borrowing; it will also therefore form part of the Authority's audit trail justifying long-term borrowing decisions.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

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

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

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

- Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF),
- Loans to other UK local authorities
- Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit)
- Investments in Money Market Funds
- Treasury Bills (short-dated UK government debt)
- UK government bonds (Gilts)
- Sterling denominated bonds by non-UK sovereign governments
- Bonds issued by multilateral development banks
- Covered bonds (i.e. those with underlying collateral)
- Loans, bonds and commercial paper issued by corporates other than banks (secured and unsecured)
- Reverse Repurchase Agreements ('reverse repos')
- Investments with Registered Providers of Social Housing (i.e. housing associations)
- Pooled funds meeting the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments and which invest in cash instruments /bonds / equities / property – (bond, equity, property and multi asset funds will be long-dated strategic investments)
- Real Estate Investment Trusts (REITs)

4.3 APPROVED METHODS AND SOURCES OR RAISING CAPITAL FINANCE

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

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

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

Approved sources of long-term and short-term borrowing include

- HM Treasury's PWLB lending facility (formerly the Public Works Loans Board)*
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except [your local] Pension Fund)
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
- *Any other counterparty you intend to borrow from*

HM Treasury has issued new guidance regarding PWLB lending which will apply to any loan arranged from 26 November 2020.
https://www.dmo.gov.uk/media/17136/pwlb-guidance-for-applicants.pdf

The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

4.4 INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

These relate to monies which the Authority invests in other financial assets and property primarily for financial return.

The Authority will disclose in its Annual Investment Strategy and the Capital Strategy the contribution that non-treasury investments make to the overall financial and/or service delivery objectives of the Authority. In this regard, where appropriate the Authority will group individual investments into categories.

From 2023/24, the Authority will also set an additional Prudential indicator: "Net income from commercial and service investments to net revenue stream". In calculating net income only direct costs such as property management are netted off gross income, not related interest and MRP costs.

The Informal Commentary to the 2018 Investment Guidance also recommends that the Authority's Investment Strategy include for existing and planned investments:

- quantitative indicators that allow Councillors and the public to assess both the opportunities of the investments as well as the total risk exposure as a result of its

investment decisions over both, the payback period and over the repayment period of any debt taken out (the indicators are not mandatory but should be taken as examples);
- how investments are funded and the rate of return received.

Should the Authority become or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Investment Strategy will:

- detail the extent to which funding expenditure to meet the service delivery objectives is dependent on achieving the expected net profit [MHCLG's suggested indicator "Commercial Income to NSE (net service income) ratio"]
- outline the Authority's contingency plans should it fail to achieve the expected net profit.

4.5 USE OF DERIVATIVES

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in this TMP document will count against the counterparty credit limit and the relevant foreign country limit.
In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications. Additionally, the use of derivatives is restricted to only those officers who have completed the appropriate training for their use.

Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

TMP5 AUTHORITY, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES

5.1 LIMITS TO RESPONSIBILITIES

5.1.1 Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Treasury Management Strategy, Capital Strategy and Investment Strategy

5.1.2 Audit and Governance Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Receiving and reviewing material borrowing and investment decisions.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Director of Finance, Development and Regeneration and Deputy Chief Executive / Assistant Director - Finance will ensure there is always adequate segregation of duties in all transactions, with specific separation of duties between organising the deal and releasing funds for the deal.

5.3 TREASURY MANAGEMENT AUTHORITY CHART

Director of Finance, Development and Regeneration and Deputy Chief Executive / Assistant Director - Finance

Strategic Finance Managers

Chief Accountant / Finance Manager - Corporate (Deputy)

Senior Finance Technicians

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

Director of Finance, Development and Regeneration and Deputy Chief Executive / Assistant Director - Finance

1. Director of Finance, Development and Regeneration and Deputy Chief Executive / Assistant Director - Finance will:

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

h) Recommend the appointment of external service providers where appropriate.
i) Approve and authorise investment and borrowing deals (within dealing limits – see 5.6)

2. The Director of Finance, Development and Regeneration and Deputy Chief Executive and Assistant Director - Finance have delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

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3. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance, Development and Regeneration and Deputy Chief Executive or Assistant Director - Finance to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

4. The Director of Finance, Development and Regeneration and Deputy Chief Executive and Assistant Director - Finance may delegate power to borrow and invest to members of staff to conduct all dealing transactions (within limits set at section 5.6). All transactions must be authorised by at least two specified named officers and the Chaps payment released by a third as per the responsibilities set out in 5.4.2 to 5.4.4. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.1 Assistant Director - Finance / Strategic Finance Managers.

1. Approve and authorise investment deals (within dealing limits – see 5.6)
2. Release Chaps payments
3. Determine and approve short term borrowing (within borrowing limits – see 5.6).

5.4.2 Chief Accountant / Finance Manager - Corporate (Deputy)

The treasury responsibilities of this post will be:-

- To assist Director of Finance, Development and Regeneration and Deputy Chief Executive and Assistant Director - Finance in the formation of the Treasury Strategy.
- Identify and recommend opportunities for improved practices
- Maintaining relationships with counterparties and external service providers
- Supervise Treasury Management staff
- Monitor performance
- Review the performance of treasury management functions
- Implement Treasury Management Strategy
- Approve and authorise investment deals (within dealing limits – see 5.6)
- Release Chaps payments
- Check interest calculations
- Arrange rescheduling or premature repayment of existing borrowings.

5.4.3 Senior Finance Technician

Responsibilities:-

- Calculate daily cash balances

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

5.5 ABSENCE COVER ARRANGEMENTS

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

5.6 DEALING LIMITS

Dealings can be carried out providing that transactions are within limits determined by the council and the Director of Finance, Development and Regeneration and Deputy Chief Executive / Assistant Director - Finance as detailed in the table below;

Investment Dealing Limits	
Director of Finance, Development and Regeneration and Deputy Chief Executive	As per limits set within the treasury management strategy
Assistant Director - Finance / Strategic Finance Managers	Monetary Limits set within TMS / 365 days and under investment horizon
Chief Accountant / Finance Manager - Corporate (Deputy)	Up to £5m / 6 months and under investment horizon.

Borrowing Dealing Limits	
Director of Finance, Development and Regeneration and Deputy Chief Executive	As per limits set within the treasury management strategy
Assistant Director - Finance / Strategic Finance Managers and Chief Accountant	Short term Borrowing up to £5m per transactions and 365 days and under borrowing horizon

5.7 LIST OF APPROVED BROKERS/ONLINE BROKER

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

5.8 POLICY ON BROKERS' SERVICES

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

5.9 POLICY ON TAPING OF CONVERSATIONS

The authority will not tape telephone conversations

5.10 DIRECT DEALING PRACTICES

All deals are carried out with brokers with the exception of Bank of England, Money Market Funds, Nat West overnight deposit account or direct with a local authority.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

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

5.12 DOCUMENTATION REQUIREMENTS

Cash dealing sheet
Cash flow summary
Loan Record
Dealing sheet
Brokers confirmation
Counter party confirmation
Invoice signed/coded to budget
Nat West Bankline confirmation sheet
Email approvals covering all of the above if processed electronically

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority manages funds under delegated powers for Tees Valley Combined Authority.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

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

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

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

   - the prospects for interest rates
   - current treasury portfolio position
   - the limits placed by The Authority on treasury activities
   - liability benchmark
   - borrowing requirements
   - maturity structure of borrowing
   - the expected borrowing strategy
   - investment strategy
   - the expected temporary investment strategy
   - the expectations for debt rescheduling
   - any extraordinary treasury issue
   - The Authority's Treasury investment strategy, ESG policy for investments, approved investment instruments, counterparties and time/monetary limits minimum credit ratings (where applicable) and risk assessment
   - Treasury management prudential indicators
   - Related matters -e.g. use of financial derivatives
   - MiFID II status

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

5. The capital strategy will cover the following: -

   - Capital expenditure, its financing, the governance process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions
   - Debt, borrowing, MRP, investments; borrowing strategy, treasury investment strategy
   - Investments for service purposes and their risk management and governance
   - Commercial activities, Investments for commercial purposes and their risk management and governance
   - Other long-term liabilities, such as financial guarantees and their governance
   - Prudential indicators
   - Revenue Budget implications

- Knowledge and skills, and confirmation that these are commensurate with the authority's risk appetite and activities.

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

   - Treasury management investments
   - Service investments (.e.g. loans to or shares in subsidiaries / suppliers / local businesses / local charities / housing associations / local residents / employees] and their contribution; limits; risk assessment
   - Commercial investments - property (MHCLG defines property to be an investment if it is held primarily or partially to generate a profit), its contribution towards the service delivery objectives and/or place making role of the Authority; risk and security assessments;
   - Loan commitments and financial guarantees
   - Proportionality - the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.
   - Borrowing in advance of need (if relevant)
   - Capacity, Skills and Culture of elected members and statutory officers involved in the investments decision making process
   - Investment indicators

6.2 POLICY ON INTEREST RATE EXPOSURE

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

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

2. The Director of Finance, Development and Regeneration and Deputy Chief Executive 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 Director of Finance Development and Regeneration and Deputy Chief Executive shall submit the changes to Cabinet for recommendation to Council.

6.3 MID YEAR REVIEW

A mid-year review will be produced for the period ending September each year and presented to the Audit and Governance Committee. The report will include:

- activities undertaken
- report of material treasury decisions
- variations (if any) from agreed policies/practices
- interim performance report
- monitoring of treasury management indicators

- forecast for the remainder of the financial year
- monitoring of treasury management indicators.

6.4 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

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

- borrowing and investment activities undertaken including forward deals agreed and their revenue (current) effects
- report of material treasury decisions taken in year
- risk implications of decisions taken and transactions executed
- compliance with agreed policies/practices and on statutory/ regulatory requirements
- report on compliance with CIPFA TM Code recommendations
- monitoring of treasury management indicators for local authorities
- training /CPD undertaken by treasury officers.

6.5 MANAGEMENT INFORMATION REPORTS

Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

Balanced Budget Requirement: Part I of the Local Government Finance Act 1992 requires the Authority to calculate its budget requirement for each financial year including, among other aspects:

(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account, and
(b) revenue costs which flow from capital financing decisions

The Act requires the Authority to set a council tax sufficient to meet expenditure after taking into account other sources of income.

7.2 ACCOUNTING PRACTICES AND STANDARDS

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

7.3 AUDIT ARRANGEMENTS

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

7.4 BUDGET REPORTING

A quarterly budget monitoring report goes to the Authority. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position.

7.5 ANNUAL ACCOUNTS DISCLOSURES RELATING TO TREASURY MANAGEMENT

The latest set of the annual statement of accounts is available on the Councils website and the disclosure notes include;

- Financial Instruments – Financial Assets, Financial Liabilities; Income, Expense, Gains and Losses on Financial Instruments
- Fair Value of Financial Assets and Liabilities
- Nature and Extent of Risks arising from Financial Instruments: Credit Risk, Liquidity Risk, Refinancing and Maturity Risk, Market Risks (Interest rate risk, Price risk and Exchange Rate Risk).

TMP8 CASH AND CASH FLOW MANAGEMENT

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

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Authority's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years.

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 PROCEDURE

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

8.3 PROCEDURES FOR BANKING OF FUNDS

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

8.4 LIABILITY BENCHMARK (LB)

The LB is helps establish whether the Authority is likely to be a long-term borrower or long-term investor in the future and represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.

The LB will be updated regularly through the year by the Authority with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

Please see TMP 5 for more information on its use.

TMP9 MONEY LAUNDERING

9.1 ANTI MONEY LAUNDERING POLICY

This Authority's policy is to prevent, wherever possible, the organisation and its employees being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

The Authority has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

When borrowing/investing funds for treasury management purposes, the Authority will only borrow from and invest with sources and counterparties as identified in the Treasury Management Strategy. The criteria for the construction and management of the lending list are detailed in TMP1 *Risk Management.*

9.2 PROCEDURES FOR ESTABLISHING THE IDENTITY / AUTHENTICITY OF LENDERS AND BORROWERS

a) In the course of its treasury activities, the Authority will only borrow from permitted sources identified in TMP4 Approved instruments, methods and techniques

b) The Authority will not accept loans from individuals.

c) In the course of its treasury activities, the Authority will only invest with those counterparties which are on its approved lending list

d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website

e) All receipts/disbursements of funds will be undertaken by Bacs or CHAPS settlement

f) Direct dealing mandates: The Authority will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed

g) All banking transactions will only be undertaken by the personnel authorised to operate the Authority's banks accounts

h) If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals

i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details

9.3 MAIN OFFENCES RELATING TO MONEY LAUNDERING

The **Proceeds of Crime Act (POCA) 2002** established the main offences relating to money laundering. In summary, these are:

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

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

Other offences include:

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

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism.

All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

TMP10 STAFF TRAINING AND QUALIFICATIONS

10.1 DETAILS OF APPROVED TRAINING COURSES

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

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

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

Treasury-related training records are maintained via the Councils annual appraisal process.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

11.1.1 Banking services

a) Name of supplier of service is Nat West. The branch address is High Street, Stockton-On-Tees.
b) The current contract ran until the 31st December 2022 but a two year extension has been agreed.
c) Cost of service – a schedule of charges is agreed at the beginning of the contract.

11.1.2 Money-broking services

Name of supplier of service:

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

11.1.3 Consultants'/advisers' services

The authority has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business. This contract commenced on the 1st January 2022 and will run for a period of 3 years with an option to extend for a further 2 years.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

TMP12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

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

1. Treasury Management Strategy
2. Investment Strategy
3. Capital Strategy
4. Treasury Management Practices
5. Mid Term Treasury Management Strategy
6. Minimum Revenue provision policy statement
7. Annual Treasury Management Report
8. Annual Statement of Accounts
9. Annual Budget

The Director of Finance, Development and Regeneration and Deputy Chief Executive will ensure that those charged with responsibility for the treasury management policy, Audit and Governance Committee / Full Council have all the information necessary to enable them to openly fulfil their obligations, and are fully appraised of and consulted on the Authority's treasury management activities on a regular basis.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection are sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change.