Dacorum Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means cash raised during the year will meet cash expenditure. A primary function of the Treasury Management service is to ensure cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially, before considering investment return.

The second main function of the Treasury Management service is funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure the Council can meet its capital spending obligations. Longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses, or restructuring debt to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and hence the councils ability to meet spending commitments as they fall due, either on day-to-day revenue or in the medium term for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.2 Clauses to be formally adopted

a) Dacorum Borough Council will create and maintain the following 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 principles and practices (TMPPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

b) Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close.

Responsibility is delegated to the Section 151 Officer for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions. They will act in accordance with the policy statement and TMPPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

c) This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the treasury management strategy, policies and monitoring before recommendation to Full Council.

1.3 Treasury Management Policy Statement

The Council defines its treasury management activities as:

The management of the organisation's borrowing, investments, cash flows, 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.

The 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.

The Council acknowledges that effective treasury management will provide support towards the achievement of the Council's 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.

1.4 Reporting requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement (this report) - The first, and most important report, covers:

- the capital plans (including prudential indicators);

- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid- year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny – The above reports are required to be adequately scrutinised before being recommended to the Council. The Cabinet undertakes this role.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.5 Training

The CIPFA Code requires the responsible officer to ensure Councillors with responsibility for treasury management receive adequate training. The training needs of treasury management officers are periodically reviewed.

1.6 Treasury management consultants

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises the value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure the terms of their appointment and methods by which their value are assessed are properly agreed and documented, and subject to regular review.

The Council recognises responsibility for treasury management decisions remains with the organisation at all times and will ensure undue reliance is not placed upon our external service providers.

2. The Capital Prudential Indicators 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plan is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

The first prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the capital expenditure plans and financing. Any shortfall of resources results in a borrowing need. Members are asked to approve the capital expenditure forecast:

Capital expenditure	**2018/19 Actual £m**	**2019/20 Q3 Forecast £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Non-HRA	15.348	19.072	11.346	27.313	31.177
HRA	24.725	37.987	29.698	40.673	48.501
Total	**40.073**	**57.059**	**41.043**	**67.986**	**79.678**
Financed by:					
Capital grants & S106	2.792	2.417	1.136	0.953	0.741
Capital receipts & reserves	28.407	45.598	31.649	45.742	33.099
Revenue contribution to Capital	8.773	5.830	6.205	7.222	0.350
Borrowing	0.1	3.214	2.052	14.069	45.488
Net financing need for the year	**40.072**	**57.059**	**41.043**	**67.986**	**79.678**

The financing need excludes other long-term liabilities, such as leasing arrangements. Capital Expenditure excludes loans to other bodies for Capital purposes.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Capital expenditure, which is not immediately paid for, increases the CFR.

The CFR includes long term liabilities like finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, they include a borrowing facility so the Council is not required to separately borrow. The Council currently has £0.188m of finance leases within the CFR. During 2020/21 the CFR is expected to increase due to a change in accounting treatment for the leases- this will not increase external debt.

The Council is asked to approve the CFR projections below:

	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Financing Requirement					
CFR – non housing	8.665	11.633	18.306	18.110	32.055
CFR – housing	344.104	340.518	337.980	348.438	378.281
Total CFR	352.769	352.151	356.286	366.548	410.336
Movement in CFR		**(0.618)**	**4.135**	**10.262**	**43.788**

Movement in CFR is represented by					
Net financing need for the year the Capital Programme		3.214	2.052	14.069	45.488
Net financing need for the year-Loans for Capital Purposes		(0.010)	5.990	(0.010)	(0.010)
Accounting changes in lease treatments		0.000	1.000	0.000	0.000
Minimum Revenue Provision & HRA Debt Repayment		(3.822)	(4.907)	(3.797)	(1.690)
Movement in CFR		**(0.618)**	**4.135**	**10.262**	**43.788**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the Capital Financing Requirement through a charge to revenue known as the minimum revenue provision (MRP). Additional voluntary payments (voluntary revenue provision - VRP) are allowed.

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options for calculating MRP are allowed so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

The MRP policy will be:
Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations;
This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Repayments included in finance leases are applied as MRP.

MRP Overpayments/Voluntary Revenue Provisions - MHCLG MRP Guidance allows that any charges made over the statutory minimum revenue provision (MRP), can be reclaimed in later years if deemed necessary or prudent. In order for MRP to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made. Up until the 31 March 2020, the total VRP overpayments were £0.481m.

The Council has and may provide loans to Parish Councils and other public sector bodies for capital purposes. The Capital Financing Requirement (CFR) will increase by the principal amount of the loan. The loan will be repaid in full and may include interest. The repayment of principal is classed as a capital receipt, and the CFR will reduce accordingly. As this is, a temporary arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP charge.

2.4 Core funds and expected investment balances

The use of funds to finance capital expenditure or to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances and anticipated day to day cash flow balances.

Year End Resources	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Fund balances / reserves	43.290	39.787	40.5	48.815	56.659
Capital receipts	24.334	9.250	27.375	0.500	0
Provisions	5.231	5	5	5	5
Other	0	0	0	0	0
Total core funds	**72.855**	**54.037**	**72.875**	**54.315**	**61.659**
Working capital		5	5	5	5
(Under)/over borrowing		6.478	-1.596	-15.680	-15.686
Expected investments		**65.516**	**76.279**	**43.634**	**50.973**

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term costs net of investment income) against the net revenue stream.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	1.21%	1.23%	1.38%	1.36%	1.42%
HRA	20.11%	19.82%	19.60%	18.95%	20.39%

2.7 HRA ratios

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £m	344.10	340.52	335.93	332.45	362.29
HRA revenues £m	56.009	57.484	57.102	58.798	60.932
Ratio of debt to revenues %	614%	592%	588%	565%	595%
Number of HRA dwellings	10,145	10,144	10,156	10,158	10,266
Debt per dwelling £	33,919	33,568	33,077	32,728	35,290

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council.

The treasury management function ensures the Council's cash is organised in accordance with the relevant professional codes, so sufficient cash is available to meet this service activity and the Councils capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2019 and for the position as at 31 December 2019 are shown below for both borrowing and investments.

	TREASURY PORTFOLIO			
	Actual **31.3.19**	Actual **31.3.19**	Current **31.12.19**	Current **31.12.19**
Treasury investments	£000	%	£000	%
Banks	46,598	51%	45,599	45%
Building societies - rated	22,500	24%	24,500	24%
Local authorities	12,000	13%	15,500	15%
DMADF (H.M.Treasury)	0	0%	4,500	4%
money market funds	11,000	12%	11,000	11%
Total managed in house	**92,098**	**100%**	**101,099**	**100%**
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**92,098**	**100%**	**101,099**	**100%**
Treasury external borrowing				
PWLB	362,745	100%	362,383	100%
Total external borrowing	**362,745**	**100%**	**362,383**	**100%**
Net treasury investments / (borrowing)	**-270,647**	**0**	**-261,284**	**0**

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

There are a number of key indicators to ensure the Council operates its activities within well-defined limits. One is that the Council needs to ensure its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures borrowing is not undertaken for revenue purposes or to generate a profit. The Council complies with this indicator.

	2018/19 Actual £m	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
External Debt					
Debt at 1 April	365.187	362.747	358.441	353.502	349.680
Expected change in Debt	(2.440)	(4.306)	(4.939)	(3.822)	43.783
Other long-term liabilities	0.188	0.188	1.188	1.188	1.188
Actual gross debt at 31 March	**362.935**	**358.629**	**354.690**	**350.868**	**394.650**
The Capital Financing Requirement	352.769	352.151	356.286	366.548	410.336
Under / (over) borrowing*	**(10.166)**	**(6.478)**	**1.596**	**15.680**	**15.686**

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

a) **The authorised limit for external debt**. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Operational boundary	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Debt	362.747	358.441	353.502	395.168
Other long term liabilities	0.188	1.188	1.188	1.188
Total	**362.935**	**359.629**	**354.690**	**396.356**

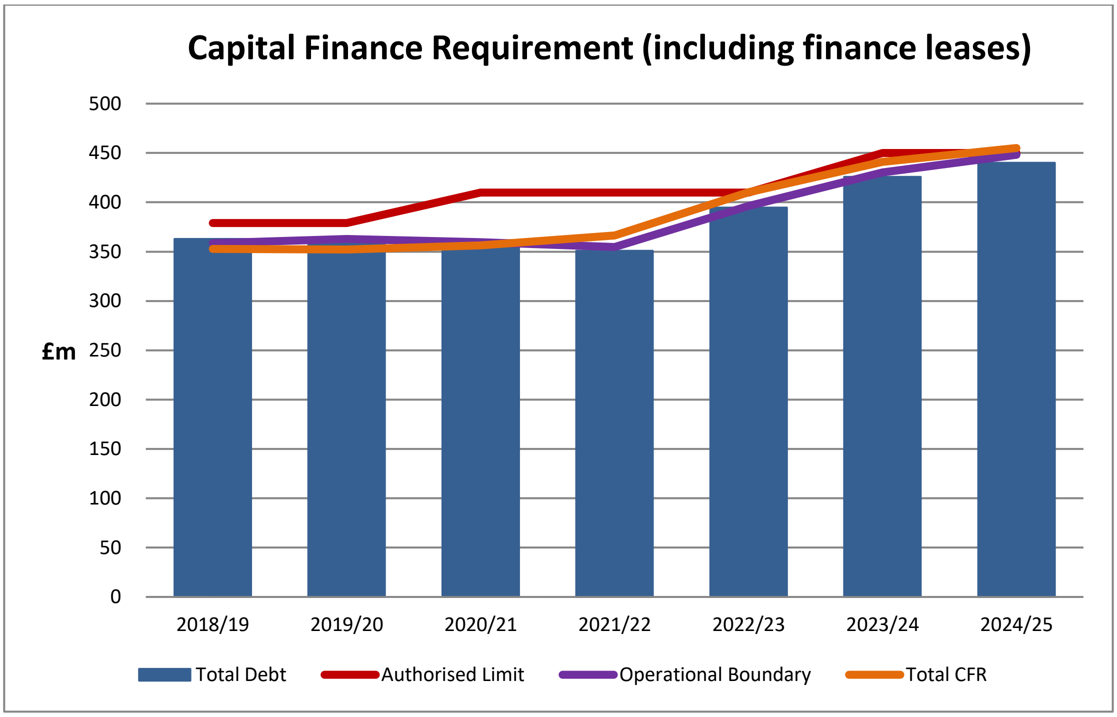
Under section 3 (1) of the Local Government Act 2003, the Government can control the total of all councils' plans or those of a specific council.

b) The Council is asked to approve the following authorised limit:

Authorised limit	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Debt	378	400	400	400
Other long term liabilities	1	10	10	10
Total	379	410	410	410

The graph below shows projections of CFR and borrowing:

CAPITAL FINANCING REQUIREMENT including PFI and finance leases							
	Actual	**Est**	**Est**	**Est**	**Est**	**Est**	**Est**
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
HRA CFR	344.1	340.5	338.0	348.4	378.3	406.6	420.2
GF CFR	8.7	11.6	18.3	18.1	32.1	34.5	34.8
Total CFR	352.8	352.2	356.3	366.5	410.3	441.2	455.0
External Borrowing	362.7	358.4	353.5	349.7	393.5	424.6	439.0
Other long term liabilities	0.188	0.188	1.188	1.188	1.188	1.188	1.188
Total Debt	**362.9**	**358.6**	**354.7**	**350.9**	**394.7**	**425.8**	**440.2**
Authorised Limit	379	379	410	410	410	450	450
Operational Boundary	358.6	362.9	359.6	354.7	396.4	430.2	448.2



3.3 Maturity Structure of borrowing

These gross limits are set to reduce the /Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	2.0%
12 months to 2 years	0%	2.0%
2 years to 5 years	0%	3.0%
5 years to 10 years	2%	10.0%
10 years and above	5%	90.0%
Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	1%
12 months to 2 years	0%	2%
2 years to 5 years	0%	2%
5 years to 10 years	0%	0%
10 years and above	0%	0%

3.4 Borrowing strategy

The Council is currently in a slightly over-borrowed position. This means the external debt is greater than the capital financing requirement. This is as a result of reduced capital expenditure and receipt of additional capital receipts in comparison to previous projections. The council is projected to be in an under borrowing position in 20/21 as shown in the second table in section 3.1.

The Corporate Director (Finance & Operations) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, specifically in relation to refinancing, delaying capital expenditure and taking on new borrowings. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money and that the Council can ensure the security of such funds.

The Council would not look to borrow more than 36 months in advance of need. Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Prospects for Interest Rates

The Councils Treasury Advisors provided the following as their view for interest rates. The Bank Rate is that Bank of England base rate of interest.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts assume there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time.

The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% in 2019.

3.7 Investment and borrowing rates

- Investment returns are likely to remain relatively low during 2020/21 with little increase in the following two years.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20. There was an unexpected increase of 100 bps (1%) in PWLB borrowing rates in October 2019.

3.8 Debt rescheduling

The rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur. The October 2019 increase in PWLB borrowing rates only applied to new borrowing rates and not to existing debt repayment rates.

If any rescheduling and or early repayment of existing debt is considered to be prudent, this will be reported to Cabinet at the earliest meeting following the completion of the repayment.

3.9 Municipal Bond Agency

It is possible the Municipal Bond Agency will be offering loans to local authorities in the future at borrowing rates lower than the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4. Annual Investment Strategy

4.1 Investment policy

The Council's investment policy has regard to the following: -

MHCLG's Guidance on Local Government Investments ("the Guidance")

CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")

CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second and then yield.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of a concentrated risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its Treasury advisors Link Asset Services to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

- Other information sources used will include the financial press and share prices in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- Dacorum Borough Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 1 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

    - **Non-specified investments** are those with a high credit quality but lower than specified investments, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

- Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio, (see paragraph 4.3).

- Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

- Transaction limits are set for each type of investment in Appendix 1.

- The Council will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 4.3).

- Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 4.2).

- The Council has engaged external consultants, (see paragraph 1.7), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

  - All investments will be denominated in sterling.

  - As a result of the change in accounting standards for 2019/20 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (MHCLG allowed a statutory temporary override to delay implementation of IFRS 9 for five years commencing from April 2018 to allow English local authorities time to adjust their portfolio of all pooled investments. There is no currently no impact for the Council).

However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

Dacorum uses the creditworthiness service provided by Link Asset Services. This service employs a modelling approach using credit ratings from the three main credit rating agencies.

The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps 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 and credit Outlooks 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (Nationalised or semi nationalised UK Banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other 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 Council 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 Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The Section 151 Officer will determine approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent) as appropriate, with durations following the same colour coded criteria, as set out in 4.2. Officers will remove counterparties from this list should ratings change in accordance with this policy. Counterparties will only be added with approval from the Section 151 Officer.

4.4 Local Authority Counterparties

In light of some Local Authorities issuing s114 notices (issued by an authority's s151 office is of the view that expenditure of the authority is likely to exceed the resources available to meet that expenditure), the Council has taken advice in respect to Local Authority counterparties. This states that local authorities continue to represent a low risk investment. The Council will continue to include Local Authority counterparties in its list of potential investment counterparties.

4.5 Transactional Limits

There may be occasions that the council is in receipt of large income transactions from land and property sales etc. In instances such as these, every effort is made to ensure the council remains within the counterparty limits as set by the Treasury Management Strategy. Due to the nature of these types of transactions, a provision of 'one working day' is given in order to allow for any surplus funds to be redistributed from the Councils bank to available counterparties as per the creditworthiness policy in 4.2.

4.6 Investment strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations: the Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment treasury indicator and limit: Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	20% of portfolio	20% of portfolio	20% of portfolio

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from compounding of interest.

4.7 Investment risk benchmarking

These benchmarks are simple guides to minimise risk; so they may be breached from time to time, depending on movements in interest rates and counterparty criteria.

The purpose of the benchmark is that officers will monitor the position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Cabinet, with supporting reasons in the mid-year and annual report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables is 0.06%.

Liquidity – in respect of this area the Council seeks to maintain:

- Maximum bank overdraft - £0.25m

- Liquid deposits of at least £5m available with a week's notice.

- Weighted average life benchmark is expected to be around 100 days

Yield - local measures of yield benchmarks for investments is to achieve internal returns above the 7 day LIBID rate.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 External fund managers

The Council does not currently use fund managers. If deemed appropriate in the future, the decision go through Cabinet for recommendation to Full Council.

4.9 Non- Treasury Investments

The Council recognises investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful management. Such activity may include loans to support service outcomes, investment in subsidiaries and investment property portfolios and is covered by the Council's normal approvals processes for revenue and capital expenditure.

The Council's portfolio of investment properties are managed as part of the Council's asset management strategy

Appendix 1: Credit and Counterparty Risk Management

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 above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house and Fund Managers
Term deposits – UK Government (including other local authorities)	--	In-house and Fund Managers
Term deposits – banks and building societies	See 4.2	In-house and Fund Managers
Term deposits – housing associations	--	In-house and Fund Managers
UK Government Gilts	UK sovereign rating	In-house and Fund Managers
Money Market Funds (CNAV)	AAA	In-house and Fund Managers
Money Market Funds (LVNAV)	AAA	In-house and Fund Managers
Money Market Funds (VNAV)	AAA	In-house and Fund Managers
UK Government Treasury bills	UK sovereign rating	In-house and Fund Managers

Term deposits with nationalised banks and banks and building societies

	*Minimum Credit Criteria	Use	*** Max % of total investments	Max. maturity period
UK part nationalised banks	See Link's Creditworthy list	In-house and Fund Managers	12.5M per institution	12 months

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of the lower of 30% of the portfolio, or £20m will be held in aggregate in non-specified investment.

	* Minimum Credit Criteria	Use	Max. maturity period
Term deposits – UK Government and Other Local Authorities	--	In-house and Fund Managers	5 years
Term deposits – housing associations	--	In-House and Fund Managers	5 years
Term deposits – banks and building societies	See 4.2	In-house and Fund Managers	5 years
Certificates of deposit issued by banks and building societies	See 4.2	In-house and Fund Managers	5 years
Fixed term deposits with variable rate and variable maturities -Structured deposits -Callable deposits -Callable range trade accounts	See 4.2	In-house and Fund Managers	5 years
Gilt Funds and Bond Funds	See 4.2	In-house and Fund Managers	5 years
UK Government gilts			5
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	5 years
Corporate Bonds	See 4.2	In-house and Fund Managers	5 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions. To ensure the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 2- Treasury Management Principle 1: Risk Management (Extract from Treasury Management Principles and Practices

***Treasury Management Practice 1:* Risk Management**

The responsible officer will, in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements:

- *Design, implement and monitor all arrangements for the identification, management and control of treasury management risk;*
- *Report at least annually on the adequacy/suitability thereof;*
- *Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect;*

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in this document.

1. Liquidity Risk Management

Dacorum Borough Council (DBC) 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 which are necessary for the achievement of its business/service objectives.

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

Liquidity risk is the risk cash will not be available when required. This can jeopardise the ability of the Council to carry out its functions, or disrupt those functions being carried out in the most cost-effective manner. The Council will ensure its cash flow forecasting gives as accurate a picture as possible of income and expenditure, and the resulting daily cash balances.

Amounts of Approved Minimum Cash Balances and Short-term Investments

The Treasury Management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day, to minimise credit interest foregone and overdraft interest payable. Borrowing and lending shall be arranged, in conjunction with 'auto-sweeping' of balances, to achieve this aim.

Investment of Short-Term Funds

Each morning the Bank's forecast figures for the day are aggregated with any other anticipated cash flows (e.g. cash courier receipts, RTB funds flows income) to produce a consolidated forecast balance for the end of the day. Any short-term credit balance will be either:

- Transferred in to the Council's Call Account with its bankers NatWest plc (RBS); or

- Placed in a Business Reserve Account with selected approved counterparties who offer this facility;

- Placed into a Money Market Fund.

All funds lodged in these ways are instantly available if required.

The Council receives interest if its consolidated balance on any particular night shows a credit balance.

Bank Overdraft Arrangements

A £0.25m net overdraft facility is available with the Council's bankers. Overdraft charges are only applicable if the Council's consolidated balance on any particular night is overdrawn, and charged in line with the Bank Contract.

Short-Term Borrowing Facilities

Short-term borrowing is very rarely required. If undertaken, this is done through brokers on the London Money Market, or Public Works Loan Board. Approved borrowing limits are set out in the Treasury Management Strategy Statement.

Insurance/Guarantee Facilities

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

2. Interest Rate Risk Management

DBC 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 described in TMP6 Reporting Requirements and Management Information Arrangements.

The Council will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques. This will be done primarily to create stability and certainty of costs and revenues, whilst 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. The above is subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

Interest rate risk is the risk unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than budgeted. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and discussing with them its strategy for the coming year for the investments and debt portfolios. It will also determine appropriate limits and trigger points as set out below.

The limits and strategy are set out in the annual Treasury Management Strategy Statement including details on the approved interest rate exposure limit, trigger points and guidelines for managing changes to interest rate levels and minimum/maximum proportions of variable/fixed rate debt and interest. The strategy is produced before the start of each financial year and will be periodically reviewed during the year to see whether any modifications are required in the light of actual movements in interest rates.

Forward Dealing

Consideration will be given to dealing on forward periods dependent upon market conditions. Investments may be agreed weeks or months in advance if market conditions suggest this course of action is appropriate. Any forward deals, whose maturity date is over one year hence at the time the investment is agreed, will only be undertaken with the approval of the Section 151 Officer. Occasionally investments are agreed a few days in advance for administrative convenience (e.g. due to annual leave etc).

Callable Deposits

The Council will use callable deposits. The credit criteria and maximum periods are set out in the Schedule of Specified and Non-Specified Investments included within the Treasury Management Strategy Statement.

3. Exchange Rate Risk Management

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

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

Approved Criteria for Managing Changes in Exchange Rate Levels

As a result of the nature of the Council's business, the Council 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 Council will adopt a full hedging strategy to control and add certainty to the sterling value of any foreign currency transactions above £10,000 in value (at the prevailing exchange rate). This will mean the Council will eliminate all material foreign exchange exposures as soon as they are identified.

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 for material foreign currency transactions. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council 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

4. Credit and Counterparty Risk Management

Dacorum Borough Council regards the primary objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Council will ensure its counterparty lists and limits reflect a prudent attitude towards counterparties with whom funds may be deposited. Furthermore, the Council 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.

The Council 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 arrangements.

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

As a holder of public funds, the Council recognises its prime responsibility to always put first preserving the principal of the sums it invests. Consequently, it will optimise returns commensurate with the management of the associated risk.

Criteria to be used for Creating/Managing Approved Counterparty Lists/Limits

The Council places a strong reliance on its treasury adviser Link Asset Services to help manage credit and counterparty risk. Link has much greater market expertise and direct access to market knowledge than the Council. None the less, the Council recognises all advice provided by its treasury adviser is precisely that, and full responsibility for all counterparties used, and investments placed, rests entirely with the Council.

The three elements to managing credit and counterparty risk are:

a) Determining *'Specified and 'Non-Specified' Investments* criteria;
b) Determining '*Approved Lending Policy',* which sets out minimum credit criteria, duration and monetary amount limits;
c) Managing the *Approved Lending List* (or list of counterparties).

Specified and Non-Specified Investments

The Council will determine through its Treasury Management Strategy the credit criteria for various investment instruments in the 'Specified' and 'Non-Specified'

Investments categories. Specified Investments are sterling investments of not more than one year maturity (or the ability to be repaid within one year), meeting the minimum 'high' rating criteria and require *'minimal procedural formalities'*. Non-specified investments are any other type of investment. The maximum amounts and maturity periods along with the overall limits are set out in the Treasury Management Strategy Statement.

Lending Policy

The Lending Policy is based on Link guidance. This uses different ratings combinations and allocates those meeting the minimum criteria a colour as set out in the Treasury Management Strategy Statement. The Council has allocated each of these colour bands a maximum duration and amount. Any changes to the Treasury Management Statement require approval of Full Council.

Money Market Funds

Money Market Funds will be used in line with the Councils Treasury Management Strategy. Funds used will be reviewed on at least an annual basis in March, unless market conditions, trends and external advice suggests reviews should be undertaken sooner.

Approved Lending List

The list of approved counterparties is derived from applying the limits in the Treasury Management Strategy to the weekly ratings list of deposit takers provided by Link. The list includes domestic and foreign banks, building societies, supranational institutions and multi-lateral development banks. It is supplemented by a ratings alert service for changes to the ratings of individual counterparties.
If the Council uses external fund managers, they will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however the fund managers may use a subset of the derived counterparty list.

The Regulatory and Financial Accounting Team is responsible for maintaining the Approved Lending List on the Council's Investment System and for ensuring any changes are communicated to the fund manager, where appropriate.

A full copy of the Council's approved counterparties, along with their individual amount and duration limits, will be included in the Treasury Management Annual Report.

5. Refinancing Risk Management

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

The Council 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.

Refinancing risk is the risk when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms reflecting assumptions made in formulating the budget.

Debt / Other Capital Financing Maturity Profiling, Policies and Practices

The Council holds debt that arose from the Housing Self Financing in March 2012. This transaction was subject to detailed reports and approvals, and a specific audit. Debt has been acquired over a thirty year period as fixed term loans from the Public Works Loan Board (PWLB).

The Council acquired new borrowing in May 2015 to support General Fund Capital Expenditure. Borrowing activities and strategies and limits are identified within the Treasury Management Strategy Statement.

Projected Capital Investment Requirements

Regular updates are made to the Authority's revenue and capital budget projections. These projections identify the key capital items (both expenditure and income) forecast for forthcoming years, and this analysis is used to ensure the Council will have sufficient funds available in forthcoming years.

Capital expenditure and long-term liabilities definition will follow recommended accounting practice.

Policy Concerning Limits on Revenue Consequences of Capital Financing

The Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will take into account affordability in the longer term beyond this three year period. The Council will use the definitions in the Prudential Code for borrowing, capital expenditure, financing costs, investments, net borrowing, net revenue stream, and other long-term liabilities.

Whenever major capital projects are planned, a full examination is undertaken of the potential revenue impact. Issues considered include revenue costs/benefits resulting directly from the project, and the impact on revenue of interest receipts foregone as a consequence of undertaking the capital investment.

Capital Receipts Generated by the HRA

For each Right to Buy council house disposal, the Council must pay a proportion to Central Government. The Council retains the '1-4-1' receipt, which can be used to

fund 30% of new build expenditure within 3 years. Any unused '1-4-1' receipts are to be returned to Government.
The Council also has the ability to utilise 100% of its non- Right to Buy Housing receipts and a small proportion of right to buy council house sales relating to adjusted allowable debt and the local authority's share capital. Receipts under £10,000 are not subject to pooling.

6. Legal and Regulatory Risk Management

Dacorum Borough Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[4] Credit and Counterparty Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

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

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

References to Relevant Statutes and Regulations

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

Legislation

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004, 2006, 2007, 2008, 2009, 2010, 2012, 2013
- Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004

- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- Localism Act 2011
- Accounts and Audit Regulations 2015
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018

Guidance and codes of practice

- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017 & Guidance Notes 2018
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. Formally the Financial Conduct Authority's Code of Market Conduct

Dacorum Borough Council

- The Council's Standing Orders;
- The Council's Financial Regulations;
- The Council's Scheme of Delegation;
- The Council's Treasury Management Strategy;
- The Council's Treasury Management Practices – Principles & Practices;

Procedures for Evidencing the Council's Powers / Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation as follows:
Investing: Local Government Act 2003, section 12;
Borrowing: Local Government Act 2003, section 1;

Required Information from Counterparties Concerning their Powers / Authorities

Lending shall only be made to counterparties on the Council's Approved Lending List. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by various credit agencies and the Councils own data.

Statement on the Council's Political Risks and Management of these Risks

The Chief Financial Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to, and manage appropriately, political risks such as a change of the majority Group, in the Leader of the Council or a change of Government.

Monitoring Officer

The Monitoring officer is the Assistant Director Corporate and Contracted Services. The duty of this officer is to ensure treasury management activities of the Council are lawful.

Chief Financial Officer/ S151 Officer

The Chief Financial Officer and S151 Officer is the Corporate Director (Finance & Operations). The duty of this officer is to ensure financial affairs of the Council are conducted in a prudent manner and report to the Council if he/she has concerns as to the financial prudence of its actions or its expected financial position.

The Deputy S151 Officer is the Assistant Director (Finance & Resources), who can deputise fully for the S151 Officer.

7. Fraud, Error and Corruption, and Contingency Management

Dacorum Borough Council will ensure that it has identified any circumstances that 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.

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

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks;

b) Fully document all its treasury management activities so there can be no possible confusion as to what proper procedures are;

c) Ensure staff will not be allowed to engage in treasury management activities until they have had proper training in procedures; and are then subject to an adequate and appropriate level of supervision

d) Ensure records are maintained of all treasury management transactions, so there is a full audit trail and evidence of the appropriate checks being carried out.

Details of Systems and Procedures to be followed, Including Internet Services

Authority

The Council's Financial Regulations sets out the Council's delegation arrangements with regard to Treasury Management. These are summarised in *TMP5*.

Investment and Borrowing Transactions

Adequate and effective cash flow forecasting records are maintained on the Council's Investments system to support any decisions made to place investments.

A detailed register of all investments is maintained within the Council's Investments system. This system includes full details of counterparty limits, along with other information including investment amounts, value and maturity dates, interest rates, and gross interest receivable.

All transactions placed through brokers or via direct dealing are confirmed, showing details of the transaction. Written confirmation is received from both broker and borrower and checked against the dealer's records. Any discrepancies are immediately reported to the Team Leader Financial and Regulatory Accounting for resolution. The Council does not send any confirmations of its own.

Regularity and Security

All lending, for investment purposes, is only made to counterparties on the Council's Approved Lending List. This list provides individual authorisation limits for each counter party.

Investments are paid direct into the appropriate counterparty's bank account (as advised by the broker or counterparty as appropriate), and investments are repaid direct from the counterparty into the Council's General Account.

Counterparty limits are set for every institution that the Council invests with.

Brokers have been provided with a list of named Council officials who are authorised to place investments on the Council's behalf.
The Council's Bank holds a list of Council officials who are authorised signatories. The list of authorised bank account signatories has been agreed with the Council's

current bankers, and updates of this list are notified to the bank as appropriate when current authorised signatories leave, or new signatories join.

Notifications of amendments are only accepted by the bank if they are signed by an existing (non-departing) authorised signatory. The only member of the treasury management team that is an authorised signatory is the Team Leader Financial and Regulatory Accounting. There is a separation of duties in the section between the officer placing the deals and the officer checking counterparty confirmations. In addition, if an authorising officer were to create a payment transaction online, the transaction would still need the usual approval by one/two other authorising officers.

All investments are paid by CHAPS instruction though the online banking system. This is undertaken by two of the authorised bank account signatories and the officer agreeing an investment cannot be one of the signatories for that particular investment.

Checks

The Investment System balances are reconciled to the balance sheet ledger codes at the end of each month and at the financial year-end. The System includes comprehensive reconciliation checks back to the Council's banking system to ensure all investments transactions are correctly recorded and processed.

An investment income listing is produced every month and reported on the Council's performance system.

Emergency and Contingency Planning Arrangements

All computer files are backed up on the server to enable files to be accessed from remote sites.

The Council's Investment and banking systems are both internet based so can be accessed from any site or computer, subject to the user having the appropriate access and security information.

Insurance Cover Details

The Council has Crime insurance cover provided by Travelers Insurance Co Ltd. This policy covers loss resulting directly from any crime committed by any employee or any third party. The total limit of indemnity provided is £5,000,000, a policy excess of £25,000 for each and every claim applies.

The Council also has Officials Indemnity cover with Aspen Insurance UK Ltd. This provides cover in respect of the Council's legal liability to pay claimant's damages and costs for financial losses arising as a result of the negligent acts or accidental errors and omissions of Council employees, occurring in the course of their duties. The limit of indemnity is £5,000,000, a policy excess of £75,000 for each and every claim applies.

The Council has Business Interruption cover as part of its property insurance with Travelers Insurance Co Ltd. This covers additional costs of working and loss of revenue if an insured event occurs.

8. Market Risk Management

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

Market risk is the risk through adverse market fluctuations in the value of principal sums, the Council borrows and invests, it's stated policies and objectives are compromised, against which it had failed to protect itself adequately. The Council does not currently have exposure to investments whose capital may fluctuate (gilts, Corporate Deposits), and will only undertake such activities on discussion with the S151 Officer and Portfolio Holder (Finance & Resources), and if the current Investment Strategy allows such investments.

Appendix 3: Treasury management roles and scheme of delegation

Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy;
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- approving the selection of external service providers and agreeing terms of appointment;

- approving the use of non-UK counterparties as appropriate;

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term time frame;

- ensuring the capital strategy is prudent, sustainable, affordable in the long term and provides value for money;

- ensuring due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.