




**Haringey Council**  
Agenda item:

**General Purposes Committee**

**On 23 September 2010**

Report Title.	<b>Treasury Management 2010/11 Mid Year Activity &amp; Performance update</b>		
Report of:	<b>Director of Corporate Resources</b>		
Signed :	 9/9/10		
Contact Officer :	<b>Nicola Webb, Head of Finance: Treasury &amp; Pensions</b> <b>Telephone 020 8489 3726</b>		
Wards(s) affected: <b>All</b>	Report for: <b>Non Key Decision</b>		
<b>1. Purpose of the report</b>			
1.1. To update the committee on the Council's treasury management activities and performance in the first half of 2010/11 in accordance with the CIPFA Treasury Management Code of Practice.			
1.2. To propose that the Council's lending list is extended to include non UK banks and additional Money Market Funds.			
1.3. To present the Treasury Management Practices document as required by the CIPFA Treasury Management Code of Practice.			
<b>2. Recommendations</b>			
2.1 That members note the Treasury Management activity undertaken during the first half of 2010/11 and the performance achieved.			
2.2 That General Purposes Committee recommend the proposed extension to the			

lending list to include non UK banks and an extended use of money market funds, as set out in Appendix 3, to Cabinet and Council.

- 2.3 That members agree the reinstatement of Clydesdale Bank and note the reinstatement of Santander UK Bank to the lending list.
- 2.4 That members approve the Treasury Management Practices document set out in Appendix 4.

### **3. Reason for recommendations**

- 3.1 To ensure members are aware of the Treasury Management activities undertaken in the first half of 2010/11 and to report on performance.
- 3.2 To provide further capacity for the Council's investments to maintain diversification for a reasonable yield.
- 3.3 To meet the requirements of the CIPFA Treasury Management Code of Practice.

### **4. Summary**

- 4.1 This report sets out the Council's Treasury Management activity and performance during the first half of 2010/11 and shows compliance against the Prudential Indicators. During the quarter Santander UK bank was re-instated and this Committee is asked to consider re-instating Clydesdale Bank. £20m of new borrowing was taken at the end of August at a two year low rate of 3.92%.
- 4.2 Two proposals to extend the lending list to provide further capacity are set out in the report. One is to add a small range of non UK banks to the list and the second to extend the use of money market funds. Both proposals would increase capacity and improve yield, while ensuring the credit quality of the portfolio remains high.
- 4.3 The Treasury Management Practice documents required by the CIPFA Code of Practice are set out in the report. These explain how the Council approaches each aspect of treasury management.

### **5. Head of Legal Services Comments**

- 5.1 The Head of Legal Services has been consulted on the content of this report and comments that its content and recommendation are within the policy agreed by Council and consistent with the purposes of Financial Regulations. In considering the report Members must take into account the expert financial advice available in the report and any further advice given at the meeting of the Committee in relation to the level of risk inherent in the proposals to extend the lending list.

### **6. Use of appendices**

- 6.1 Appendix 1: Summary of Treasury Management activity and performance  
Appendix 2: Prudential Indicators  
Appendix 3: Revised lending list for specified investments

#### Appendix 4: Treasury Management Practices

##### **7. Local Government (Access to Information) Act 1985**

7.1 The following background papers were used in the preparation of this report:

- Financial Planning Report for 2010/11 to 2011/13 reported to Council and agreed on 22 February 2010.

For access to the background papers or any further information please contact Nicola Webb, Head of Finance: Treasury & Pensions, on 0208 489 3726.

##### **8. Treasury Management Strategy Statement 2010/11**

8.1 The Council approved the Treasury Management Strategy Statement for 2010/11 on 22<sup>nd</sup> February 2010. The Strategy states that the General Purposes Committee will monitor treasury management activity and performance on a quarterly basis and that a mid year report will be presented to General Purposes Committee, Cabinet and full Council. This report forms the second quarterly monitoring report and the mid year report for 2010/11.

8.2 The latest government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds.

8.3 The quarterly reports during 2010/11 are structured according to these factors, so that members can see how they are being addressed operationally.

##### **9. Treasury Management Activity and Performance: Security**

9.1 The Treasury Management Strategy Statement places a high emphasis on security of the Council's funds. This is achieved in two ways – firstly by minimising the funds held which need to be invested and secondly by maintaining a lending list of high quality counterparties with strict limits.

9.2 During the financial year to date cash balances have remained at levels sufficient to manage the payments the Council was required to make. £10m of PWLB long term borrowing matured in early July and this was repaid without being replaced. However with £40m of PWLB debt due to mature in October, the Council does have a need to borrow. Therefore when long term borrowing rates fell to levels not seen since 2008 at the end of August, the Council took advantage of this by borrowing

£20m for 50 years at 3.92%. The long term borrowing portfolio now totals £646m and the average rate payable has dropped to 6.78%.

- 9.3 The Council approved the list of institutions which the Council can lend to as part of the Treasury Management Strategy Statement. The list was drawn up on the advice of the Council's treasury management advisors and only includes institutions which are assessed as having high credit quality. In addition to the Debt Management Office and AAA rated Money Market Funds, the list included eight UK banks and building societies, but only six are currently being used:

- Barclays Bank
- Lloyds TSB Bank (part of the Lloyds Banking Group)
- Bank of Scotland (part of the Lloyds Banking Group)
- Nationwide Building Society
- Royal Bank of Scotland
- Santander UK plc (recently reinstated)
- HSBC Bank (not actively used)
- *Clydesdale Bank (currently suspended from use)*

- 9.4 Santander UK plc had been suspended from the lending list due to concerns about the downgrading of the sovereign ratings of Spain, where their parent owner is based. However Arlingclose have reviewed the bank and concluded that as they are a UK bank, they are comfortable with recommending to the Council that they use them for short term deposits. As a result, written permission was sought and given by the Leader of the Council and the Chair of General Purposes Committee to re-instate Santander UK plc. Their instant access call account is now being used again.

- 9.5 Although HSBC is on the list, it has not been actively used as they generally do not accept deposits for less than one year. However officers are currently investigating the possibility of an instant access call account they may be offering.

- 9.6 Clydesdale Bank is currently suspended from the lending list due to concerns about the sovereign rating of Australia where their owner, National Australia Bank, is based. However Arlingclose have reviewed the situation and as the Australian economy avoided recession and Clydesdale is registered as a UK bank with good ratings, they are now recommending the Council reinstates the bank. Therefore it is recommended that Clydesdale Bank is re-instated onto the lending list with a restricted maturity limit of up to 6 months only.

- 9.7 Three AAA rated money market funds were selected for use by the Council following a selection exercise in November 2009. These funds have been used extensively due to the instant access they offer and the reasonable rate of return. When it has not been possible to deposit elsewhere, funds have been deposited with the Debt Management Office, which is a government guaranteed facility.

- 9.8 The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council has complied with all these limits during the financial year to date. In addition officers have sought to spread the deposits across the available institutions to further minimise security risk. The table below shows the Council's deposits on 8<sup>th</sup> September 2010:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Lloyds Bank	A+	3.40	5.0
Royal Bank of Scotland	A+	4.20	6.2
Barclays Bank	AA-	5.60	8.3
Nationwide Building Society	A+	7.00	10.3
Santander UK plc	AA-	19.90	29.4
Henderson Money Market Fund	AAA	14.95	22.0
RBS Money Market Fund	AAA	12.72	18.8
Total		67.77	100.0

- 9.9 Arlingclose, the Council's treasury management advisers have devised a way of scoring the level of credit risk the Council is taking. The scores this produces have been reported to General Purposes Committee since early 2009/10. This measure scores credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

- 9.10 The score for the latest quarter is shown below alongside the previous three quarters for comparison:

	Quarter 3 2009/10	Quarter 4 2009/10	Quarter 1 2010/11	Quarter 2 2010/11
Value weighted	3.5	3.5	2.3	2.7
Time weighted	4.0	4.2	3.6	4.2

This shows that the Council still remains within the target score range and that there has been a slight increase in the score since the first quarter. This is due to the reinstatement of Santander UK plc in September and less use of the Debt Management Office as a result.

## 10. Treasury Management Activity and Performance: Liquidity

- 10.1 Once the Council is satisfied that security risk is being managed, the next consideration in treasury management is liquidity. The Council has a number of inflows and outflows every month and it is important that the Council's funds are managed to ensure there is sufficient liquidity when it is required.

- 10.2 The tool which officers use to ensure that liquidity is maintained is cash flow forecasting. Work has been done to develop the forecasting and officers now have a clearer picture of day to day liquidity requirements.
- 10.3 Officers have maintained liquidity throughout the quarter. This has been achieved because no long term investments have been entered into and the AAA rated money market funds have been used extensively, as they provide the Council with instant access and a reasonable return. The average balance in these funds during the quarter was £24.4m. As set out in paragraph 9.2, £20m of borrowing was taken at the end of August to take advantage of very low rates and to maintain liquidity when £40m of long term borrowing matures in October.
- 10.4 The table below shows the Council's deposits at 8<sup>th</sup> September 2010, the term of each of the deposits and calculates the weighted average maturity of the portfolio.

Institution	Term of deposit (days)	Amount (£m)
Lloyds Bank	45	3.40
Royal Bank of Scotland	56	4.20
Barclays Bank	41	3.90
Barclays Bank	35	1.70
Nationwide Building Society	40	7.00
Santander UK plc	1	19.90
Henderson Money Market Fund	1	14.95
RBS Money Market Fund	1	12.72
Weighted Average Maturity	13.8	

## 11. Treasury Management Activity and Performance: Yield

- 11.1 Only once security and liquidity have been considered and the Council is satisfied it has taken all steps to minimise these risks, should yield be a factor. Base rate has remained at 0.5% throughout the financial year to date and Arlingclose's forecast is that it will remain at this rate until at least the end of 2011 when it will start to rise slowly.
- 11.2 The Debt Management Office is still paying 0.25% for all deposits, regardless of the length of the fixed term. The money market funds are paying between 0.4% and 0.6%. Banks are paying a variety of rates up to 1% depending on the length of time funds are deposited for.
- 11.3 By the end of the first half of the financial year, it is expected that interest of £155k will have been earned on the Council's deposits at an average rate of 0.58%. The interest payable on borrowing during the first half of the year was £22.2m. The budget for interest earned in 2010/11 is £500k and the budget for interest payable is

£44.57m. It is anticipated that the budget will be achieved on a net basis by the end of the financial year.

## **12. Prudential Indicators**

- 12.1 The Council set prudential indicators for 2010/11 in February 2010. The set of indicators is made up of those which provided an indication of the likely impact of the planned capital programme and those which are limits set on treasury management activity. Appendix 2 sets out the original indicators, the current forecast for each of the capital indicators and the current position on each of the treasury management limits.
- 12.2 Forecast capital expenditure has increased since the original indicator was set due to the addition of carry forwards from 2009/10. The incremental impact of capital expenditure indicators are showing much lower levels than originally set. The original indicators showed the total Band D Council Tax and weekly housing rent, rather than only the portion related to capital expenditure not supported by grants.
- 12.3 None of the limits on treasury management have been breached in the year to date. Borrowing is well within the operational and authorised limits set due to the policy of using internal cash balances to fund the capital programme. Borrowing is expected to increase further in the second half of the financial year, but will remain well within the limits set.

## **13. Extending the lending list**

- 13.1 As stated in paragraph 9.3, only six of the banks on the list are currently actively used and although not specifically stated in the Treasury Management Strategy Statement, the Council's treasury management advisers recommend that the Council invests no more than 15% with any one counterparty to ensure that the portfolio is suitably diversified to reduce risk. Officers apply this recommendation to the sum of the Council and Pension Fund's deposits. The result of this is that the Council has had to make use of the Debt Management Office. Although this is government guaranteed and therefore has no credit risk, it only pays 0.25% for deposits. Extending the lending list will provide more capacity and reduce the need for the Council to use the Debt Management Office. There are two ways of doing this:
- 13.2 Add a number of non UK banks to the lending list  
The first proposal is to add non UK banks to the list to enable fixed term deposits to be placed with them. The criteria for the banks to be on the list are suggested to be:
- Sovereign ratings of the country in which the bank is based are AAA from all three credit rating agencies
  - Minimum long term credit rating of A+ for the bank from all three credit rating agencies

- Recommended by the Council's treasury management advisers, who regularly review credit default swap rates, share prices and other market intelligence about the banks. They also review the economies of the countries in which the banks are based including the support they offer to their banks, the level of debt compared to their GDP and other key economic indicators.

13.3 It is proposed that the lending limit with each bank would be £15m. It is also proposed that no more than 10% of the Council's funds are placed with any one Eurozone country, that no more than 7.5% is placed with any one non Eurozone country (other than the UK) and that no deposits are placed with non UK banks for more than 6 months. The banks which would be included are:

Region	Country	Banks
Eurozone	Finland	Nordea Bank
Eurozone	France	BNP Paribas, Credit Agricole CIB, Credit Agricole SA
Eurozone	Germany	Deutsche Bank
Eurozone	Netherlands	Rabobank
Non Eurozone	Canada	Bank of Montreal, Bank of Nova Scotia, Royal Bank of Canada, Canadian Imperial Bank of Commerce, Toronto Dominion Bank
Non Eurozone	Switzerland	Credit Suisse
Non Eurozone	USA	JP Morgan Chase Bank

#### 13.4 Extend the limits for money market funds

Money market funds are AAA rated vehicles which allow investors a share of a large fund which invests in a wide range of underlying investments. The funds invested are available on an instant access basis and so can be withdrawn at any time up to the cut off time on the day – usually around lunchtime. There are rules in place concerning which institutions the funds can invest in and for how long to enable the funds to maintain their AAA rating. The second proposal is to increase two limits:

- Increase the individual limits for money market funds from £15m each to £20m each. Some of the UK banks currently on the list with limits of £20m are A+ rated whereas the AAA rated money market funds have lower limits of £15m. This proposal would remove this inconsistency.
- Increase the group limit for money market funds from £45m to £100m.

#### 13.5 In proposing this option the following controls are recommended:

- Only money market funds recommended by the Council's treasury management advisers are used;
- Additional money market funds are only used following a selection procedure involving officers and the Council's treasury management advisers;
- No more than 15% of the Council's portfolio is invested in any one money market fund at any time.



- 13.6 The table below provides a summary of the two proposals using the key treasury criteria:

	Non UK Banks	Money Market Funds
Security	<p>Small range of banks providing limited diversification</p> <p>All banks are individually researched and then monitored</p>	<p>Wide range of underlying investments provides significant diversification</p> <p>Not all underlying investments individually selected or monitored, although overall exposure is monitored</p>
Liquidity	<p>Can invest for periods from overnight to 6 months</p> <p>If remove from the list, cannot recall funds</p>	<p>Instant Access only</p> <p>If remove from the list, can recall funds immediately</p>
Yield	Range from 0.4% for overnight to 0.8% for 6 months	On average 0.55% after fees

#### 14. Treasury Management Practices

- 14.1 The CIPFA Treasury Management Code of Practice requires local authorities to produce and maintain a document of Treasury Management Practices. It is recommended that the document is approved by members and so this document is attached at Appendix 4. The words provided by CIPFA have been used and only changed where necessary to make them relevant to Haringey. A statement of how each area is applied by the Council is provided underneath. The Code of Practice also requires that the document is subject to scrutiny and so it will be taken to Audit Committee in November for this purpose.
- 14.2 The document is supplemented by a systems document covering the detail of how to apply the practices for use by officers in their day to day work on treasury management.

#### 15. Recommendation

- 15.1 That members note the Treasury Management activity undertaken during the first half of 2010/11 and the performance achieved.

- 15.2 That General Purposes Committee recommend the proposed extension to the lending list to include non UK banks and an extended use of money market funds, set out in Appendix 3, to Cabinet and Council.
- 15.3 That members agree the reinstatement of Clydesdale Bank and note the reinstatement of Santander UK Bank to the lending list.
- 15.4 That members approve the Treasury Management Practices document set out in Appendix 4.

## Appendix 1: Summary of Treasury Management Activity and Performance

### 1. Treasury Portfolio

	Position at Q2 2010/11 £000	Position at Q1 2010/11 £000
Long Term Borrowing PWLB	520,806	510,811
Long Term Borrowing Market	125,005	125,005
Short Term Borrowing	0	0
Total Borrowing	645,811	635,816
Investments: Council	67,770	87,934
Investments: Icelandic deposits in default	28,788	30,030
Total Investments	96,558	117,964
Net Borrowing position	549,253	517,852

### 2. Security measure

	Quarter 2 2010/11	Quarter 1 2010/11
Credit score – Value weighted	2.7	2.3
Credit score – Time weighted	4.2	3.6

### 3. Liquidity measure

	Quarter 2 2010/11	Quarter 1 2010/11
Weighted average maturity – deposits (days)	13.8	41.3
Weighted average maturity – borrowing (years)	22.6	21.6

### 4. Yield measure

	Quarter 2 2010/11	Quarter 1 2010/11
Interest rate earned	0.54%	0.66%
Interest rate payable	6.78%	7.00%

## Appendix 2: Prudential Indicators

No.	Prudential Indicator	2010/11 Original Indicator	2010/11 Position/Forecast at Quarter 2
<b>CAPITAL INDICATORS</b>			
1	Capital Expenditure	£148,598k	£163,274k
2	Ratio of financing costs to net revenue stream		
	General Fund	4.67%	5.65%
	HRA	33.39%	32.22%
3	Capital Financing Requirement	£718,766k	£749,706k
4	Incremental impact of capital investment decisions		
	Band D Council Tax	£1,184.32	£4.18
	Weekly Housing rents	£83.20	£0.00
<b>TREASURY MANAGEMENT LIMITS</b>			
5	Authorised Limit	£900,000k	£645,811k
	Operational Boundary	£875,000k	£645,811k
6	Upper limit – fixed rate exposure	100%	99.9%
	Upper limit – variable rate exposure	40%	0.1%
7	Maturity structure of borrowing (U: upper, L: lower)	L	U
	under 12 months	0%	25%
	12 months and within 2 years	0%	25%
	2 years and within 5 years	0%	50%
	5 years and within 10 years	0%	75%
	Over 10 years	0%	100%
8	Sums invested for more than 364 days	£60,000k	£0
9	Adoption of CIPFA Treasury Management Code of Practice	√	√

### Appendix 3: Revised lending list for specified investments

Instrument	Country	Counterparty	Maximum Limit of Investments in Group (where applicable)	Maximum Term of Investment
Term Deposits	UK	DMO's Debt Management Account Deposit Facility	No limit	6 months
Term Deposits	UK	Other UK Local Authorities	£30m (per Local Authority)	364 days
Term Deposits/ Call Accounts	UK	Santander UK Plc	£20m	364 days
Term Deposits/ Call Accounts	UK	Lloyds TSB Bank Plc (Lloyds Banking Group)	£20m	364 days
Term Deposits/ Call Accounts	UK	Bank of Scotland Plc (Lloyds Banking Group)	£20m	364 days
Term Deposits/ Call Accounts	UK	Barclays	£20m	364 days
Term Deposits/ Call Accounts	UK	Clydesdale	£20m	364 days
Term Deposits/ Call Accounts	UK	HSBC	£20m	364 days
Term Deposits/ Call Accounts	UK	Nationwide	£20m	364 days
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland*	£20m	364 days
Term Deposits/ Call Accounts	Finland	Nordea Bank	£15m	6 months
Term Deposits/ Call Accounts	France	BNP Paribas	£15m	6 months
Term Deposits/ Call Accounts	France	Credit Agricole CIB	£15m	6 months
Term Deposits/ Call Accounts	France	Credit Agricole SA	£15m	6 months
Term Deposits/ Call Accounts	Germany	Deutsche Bank	£15m	6 months

<b>Instrument</b>	<b>Country</b>	<b>Counterparty</b>	<b>Maximum Limit of Investments in Group (where applicable)</b>	<b>Maximum Term of Investment</b>
Term Deposits/ Call Accounts	Netherlands	Rabobank	£15m	6 months
Term Deposits/ Call Accounts	Canada	Bank of Montreal	£15m	6 months
Term Deposits/ Call Accounts	Canada	Bank of Nova Scotia	£15m	6 months
Term Deposits/ Call Accounts	Canada	Royal Bank of Canada	£15m	6 months
Term Deposits/ Call Accounts	Canada	Canadian Imperial Bank of Commerce	£15m	6 months
Term Deposits/ Call Accounts	Canada	Toronto Dominion Bank	£15m	6 months
Term Deposits/ Call Accounts	Switzerland	Credit Suisse	£15m	6 months
Term Deposits/ Call Accounts	USA	JP Morgan Chase Bank	£15m	6 months
AAA rated Money Market Funds (MMFs)	UK/Ireland/ Luxembourg	Constant Net Asset Value Money Market Funds recommended by the Council's treasury management advisers.**	£20m in any one MMF, subject to an MMF total limit of £100m.	Instant access

\* Approval of this bank also approves the use of the Council's current banker which is Nat West Bank, part of the Royal Bank of Scotland Group. Therefore, when maximum deposits with RBS are made (£20m) this group limit could be exceeded temporarily by the current account credit balance remaining overnight with Nat West Bank. There will also be the usual daylight exposure.

\*\* Funds to be selected by officers and the Council's Treasury Management advisers.  
Funds currently selected are:

- Henderson Liquid Assets Sterling Fund
- Goldman Sachs Liquid Reserves Fund
- RBS Global Treasury Fund

Other Limits to be applied

- Country limit of 10% of portfolio for countries within the Eurozone – this includes Finland, France, Germany and Netherlands
- Country limit of 7.5% of portfolio for countries outside the Eurozone – this includes Canada, Switzerland and USA

## **Appendix 4: Treasury Management Practices**

### **TREASURY MANAGEMENT PRACTICE 1: RISK MANAGEMENT**

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The Council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Director of Corporate Resources 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 below.

#### **1.1 Credit and Counterparty Risk Management:**

##### Definition

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

##### CIPFA Principle

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the annual Treasury Management Strategy Statement. 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 arrangements.

##### Application in Haringey

The Council's counterparty list is drawn up with the advice of the Council's Treasury Management advisers and reflects the Council's cautious risk averse approach. It is approved annually as part of the Treasury Management Strategy Statement.



## **1.2 Liquidity Risk Management**

### Definition

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

### CIPFA Principle

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

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

### Application in Haringey

The Council states in its Treasury Management Strategy Statement its borrowing strategy including whether it intends to borrow in advance of need. Officers maintain a cashflow forecast to ensure that adequate cash balances are available to meet the Council's obligations.

## **1.3 Interest Rate Risk Management**

### Definition

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

### CIPFA Principle

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

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

### Application in Haringey

The Council has access to information from its Treasury Management advisers and other financial commentators about the likely future course of interest rates to enable it to assess future treasury risks. The majority of the Council's loans and investments are fixed rate and the proportion of those which can be variable is set out in the Treasury Management Strategy Statement annually.

## **1.4 Exchange Rate Risk Management**

### Definition

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

### CIPFA Principle

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

### Application in Haringey

Currently the Council does not have any significant transactions in foreign currencies, so exchange rate risk is not an issue for the Council.

## **1.5 Refinancing Risk Management**

### Definition

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

### CIPFA Principle

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

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.

### Application in Haringey

The Council monitors its maturity profile to ensure it is as even as possible to avoid substantial refinancing in any one year. Targets for the maturity profile are set as a prudential indicator in the Treasury Management Strategy Statement annually. When borrowing decisions are being made, the maturity profile is one of the factors considered when determining the length of time to borrow for.

## **1.6 Legal and Regulatory Risk Management**

### Definition

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

### CIPFA Principle

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy 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 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 Council.

### Application in Haringey

The Council's Financial Regulations, which form part of the Council's Constitution, contain evidence of the power to act as required by section 151 of the Local Government Act 1972.

The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them. Officers establish the powers of those with whom they enter into transactions for the first time, including any compliance requirements in respect of a duty of care and best practice.

## **1.7 Fraud Error and Corruption and Contingency Management**

### Definition

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

### CIPFA Principle

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

### Application in Haringey

The Council has in place a Scheme of Delegations to ensure that only authorised officers can carry out transactions on behalf of the Council. A systems document is in place which details all the procedures to be followed by officers.

## **1.8 Market Risk Management**

### Definition

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

### CIPFA Principle

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

### Application in Haringey

The Council does not currently invest in instruments whose market value can vary, so it is not exposed to this risk.

## **TREASURY MANAGEMENT PRACTICE 2 - PERFORMANCE MEASUREMENT**

### CIPFA Principle

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

Accordingly the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

### Application in Haringey

The Council measures the performance of its treasury portfolio on a quarterly basis using the following measures:

- Value weighted credit score
- Time weighted credit score
- Weighted Average Maturity
- Interest rate payable
- Interest rate earned

Value for money from service providers is tested regularly through tendering processes.

### **TREASURY MANAGEMENT PRACTICE 3 - DECISION MAKING AND ANALYSIS**

#### CIPFA Principle

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

#### Application in Haringey

The Council's treasury management team maintain a complete audit trail of all decisions taken within the limits set out in the annual Treasury Management Strategy Statement approved by the Council.

### **TREASURY MANAGEMENT PRACTICE 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

#### CIPFA Principle

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy Statement, and within the limits and parameters defined in *TMP1 Risk Management*.

#### Application in Haringey

The Treasury Management Strategy agreed by the Council on an annual basis sets out the approved instruments, methods and techniques to be used in treasury management. The Council's treasury management team undertake activities within the limits of the current strategy.

### **TREASURY MANAGEMENT PRACTICE 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

#### CIPFA Principle

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

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

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

The Director of Corporate Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Corporate Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The Director of Corporate Resources will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The Director of Corporate Resources will fulfil all responsibilities delegated to them in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

#### Application in Haringey

The officers carrying out treasury management activity have clear roles and limits of responsibilities and embedded in these is the principle of segregation of duties. These arrangements are subject to an annual internal audit to ensure the controls in the procedures are sufficient.

### **TREASURY MANAGEMENT PRACTICE 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

#### CIPFA Principle

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

As a minimum:

The Council 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 organisation's treasury management policy statement and Treasury Management Practices.

The General Purposes Committee will receive regular monitoring reports on treasury management activities and risks.

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

#### Application in Haringey

The draft annual Treasury Management Strategy is reported initially to General Purposes Committee. It is then presented to Audit Committee for scrutiny before Cabinet and final approval by full Council in February each year in time for the new financial year.

The mid-year report and out-turn reports are presented to General Purposes Committee, Cabinet and full Council.

General Purposes Committee are responsible for monitoring treasury management activity and this is carried out through the production of quarterly reports.

### **TREASURY MANAGEMENT PRACTICE 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

#### CIPFA Principle

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

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

#### Application in Haringey

The costs of the staff working on treasury management are shown in the Corporate Finance budget and the interest earned and payable are shown in the Non Service Revenue budget. These expenditure and income budgets will be brought together and reported when setting the Treasury Management Strategy.

The Council accounts for all its treasury management transactions in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

## **TREASURY MANAGEMENT PRACTICE 8: CASH AND CASH FLOW MANAGEMENT**

### CIPFA Principle

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Corporate Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Resources will ensure that these are adequate for the purposes of monitoring compliance with *TMP1.2 Liquidity risk management*.

### Application in Haringey

All the Council's funds are aggregated for cash flow and investment management arrangements. The only exception to this is pension fund monies, which are invested separately in accordance with the requirements of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009.

A cash flow forecast is prepared at the beginning of the financial year and maintained on a regular basis to manage the Council's liquidity risk.

## **TREASURY MANAGEMENT PRACTICE 9: MONEY LAUNDERING**

### CIPFA Principle

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

### Application in Haringey

In accordance with recommended practice the Council maintains an anti money laundering policy. The policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Council has nominated the Head of Internal Audit & Risk Management to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated. The responsible officer is conversant with the requirements of the Proceeds of Crime Act 2002 and ensures relevant staff are appropriately trained and informed so they are alert for suspicious transactions. The responsible officer has made arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).

The officers carrying out treasury management have clear procedures to identify the borrowers and lenders they deal with. The procedures specify the authentication process which must be followed when dealing with a lender or borrower for the first time.



## **TREASURY MANAGEMENT PRACTICE 10: TRAINING AND QUALIFICATIONS**

### CIPFA Principle

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

The Director of Corporate Resources will ensure that Council 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.

### Application to Haringey

All Council members are invited to attend training on treasury management when they are elected and on a regular basis to keep their knowledge and skills up to date.

Officers' training needs are reflected in their development plans and they keep their knowledge and skills up to date through information and events from the Council's treasury advisers and CIPFA.

## **TREASURY MANAGEMENT PRACTICE 11: USE OF EXTERNAL SERVICE PROVIDERS**

### CIPFA Principle

The Council 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 which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Corporate Resources.

### Application in Haringey

Contracts are in place with the Council's bankers and treasury management advisers. These are subject to regular review and re-tender in accordance with the Council's Contract Procedure Rules, which form part of the Council's Constitution.

## **TREASURY MANAGEMENT PRACTICE 12: CORPORATE GOVERNANCE**

### CIPFA Principle

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

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

### Application in Haringey

The Director of Corporate Resources ensures that systems are in place to deliver proper financial administration and holds monthly meetings with officers responsible for treasury management to review the operation of the function. The annual Treasury Management Strategy Statement and quarterly reports are published on the Council's website, along with the annual Statement of Accounts to ensure transparency.