

TREASURY MANAGEMENT POLICY STATEMENT

West Lancashire Borough Council defines the policies and objectives of its treasury management activities within the following paragraphs:

1. The Council defines its treasury management activities as:
“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. 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.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the manner in which West Lancashire Borough Council will seek to achieve its treasury management policies and objectives, and prescribe how it will manage and control those activities.

TMP 1 - Risk management

TMP 2 - Performance measurement

TMP 3 - Decision-making and analysis

TMP 4 - Approved instruments, methods and techniques

TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 - Reporting requirements and management information arrangements

TMP 7 - Budgeting, accounting and audit arrangements

TMP 8 - Cash and cash flow managements

TMP 9 - Money laundering

TMP 10 - Training and qualifications

TMP 11 - Use of external service providers

TMP 12 - Corporate governance

TMP 1 – RISK MANAGEMENT

West Lancashire Borough 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 robust due diligence procedures cover all external investments.

The Borough Treasurer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least

annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP 6 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 section 1 of the attached schedule.

[1] credit and counterparty risk management

The Council 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 TMP 4. Approved instruments, methods and techniques are listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

[2] liquidity risk management

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.

[3] interest rate risk management

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 TMP 6 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.

[4] exchange rate risk management

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

[5] inflation risk management

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

[6] refinancing risk management

The 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.

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

[7] legal and regulatory risk management

The 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 TMP 1[1] 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 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.

[8] fraud, error and corruption, and contingency management

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.

[9] price risk management

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.

TMP 2 – PERFORMANCE MEASUREMENT

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

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in section 2 of the attached schedule.

TMP 3 – DECISION-MAKING AND ANALYSIS

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 section 3 of the attached schedule.

TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in section 4 of the attached schedule to this document, and within the limits and parameters defined in TMP 1 Risk management.

The Council has reviewed its classification with financial institutions under MIFID II and has determined that whilst there is no requirement to register as a professional client some Building Societies have requested us to do so, and this registration will be undertaken where appropriate.

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

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

The 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 Borough Treasurer will ensure that the reasons are properly reported in accordance with TMP 6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Borough Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Borough Treasurer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. Furthermore, the Borough Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in section 5 of the attached schedule.

The delegations to the Borough Treasurer in respect of treasury management are detailed in the Constitution. He will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs, and the Standard of Professional Practice on Treasury Management.

TMP 6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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 the 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 TMPs.

The Council will receive regular updates on treasury management activities and risks, as part on the corporate budget monitoring process.

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

The Council will report its treasury management indicators as detailed in the guidance notes to the Code. The present arrangements and the form of these reports are detailed in section 6 of the attached schedule.

TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The staff costs and overheads involved in operating the treasury management function will be included within the Council's treasury management budget.

In addition, the Borough Treasurer will prepare, and the Council will approve, and if necessary from time to time will amend, an annual budget for interest receipts and payments resulting from treasury management activity and for loan repayments. The matters to be included in this budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP 1 Risk management, TMP 2 Performance measurement, and TMP 4 Approved instruments, methods and techniques. The Borough Treasurer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 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.

TMP 8 – CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Borough Treasurer, 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 Borough Treasurer will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 [1] liquidity risk management. The present arrangements for preparing cash flow projections are set out in section 7 of the attached schedule.

TMP 9 – MONEY LAUNDERING

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 counter parties and reporting

suspicious, and will ensure that staff involved in this are properly trained. Instances of this nature should be reported to one of, the Internal Audit Manager or the Borough Solicitor.

TMP 10 – STAFF TRAINING AND QUALIFICATIONS

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 Borough Treasurer will recommend and implement the necessary arrangements.

The Borough Treasurer 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. The present arrangements are detailed in section 8 of the attached schedule.

TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the Council 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 will have been submitted to 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 Borough Treasurer.

TMP 12 – CORPORATE GOVERNANCE

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 report are considered vital to the achievement of proper corporate governance in treasury management, and the Borough Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

SCHEDULE TO TREASURY MANAGEMENT PRACTICES

1 Treasury Management

The Council will only invest in British Banks, Money Market Funds and Building Societies with the highest credit rating (and local authorities). The counter party limit is currently £5m. The Council engages with Link Asset Services as its Treasury Management advisors however the final decision on investment strategies under taken rests with the Council. The collection of financial data also involves discussions with brokers and access to the quality press to ensure a wide purview of the financial area.

As part of the investment strategy the cash flow management of the Council is always considered in order to ensure adequate liquidity within the system. The Council may borrow in advance of need for the current capital programme or to finance future debt maturities, if there is a clear business case to do so.

The Council has a wide range of systems and procedures in place to detect fraud, error and corruption. For example, there is a money laundering policy, cheques and BACS payments have to be duly signed by a limited number of Officers and arrangements are in place with the bank to detect fraudulent cheques. The Council's Insurance policy covers for a £1m fidelity guarantee, this means that fraud by an employee is covered up to that limit.

The treasury management section will ensure that it complies with the legal and regulatory framework, such as the CIPFA Code of Practice on Treasury Management.

2 Performance Measurement

The performance measure that has been in place for a number of years is a comparison between the investment return obtained compared to the 3 month LIBID rate. The treasury management performance has consistently exceeded this target.

The Council's banking services are subject to a tender process in order to ensure that the service provided meets operational need and provides value for money.

3 Decision Making Analysis

When arriving at Investment decisions the process will include documenting the alternative providers in order to demonstrate that the maximum amount be obtained, taking account of security, liquidity and yield issues.

The Council has long term debt of £88.212m taken out to facilitate HRA self-financing. This debt, with the Public Works Loan Board, was profiled in such a way as to minimise the risks as set out in TMP1.

4 Approved Instruments, methods and techniques

The Council will only employ Investments for fixed periods of less than 364 days in accordance with the details set out in 1 Treasury Management above.

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

Each post within the Accountancy section, where appropriate, has their responsibility for treasury management duties clearly defined. This includes arrangements for cover for absences.

There is a clear segregation of duties between those Officers that initiate any investments made and those Officers that approve the transfer of those funds. The bank has in place on line security measures when transferring funds in order to ensure the integrity of these transactions.

The treasury management section gathers information by dialogue with brokers and there use is more confined to the building society **and local authority sector**. Deals that are made with banks are carried out on a direct basis, after analysis of their credit rating and investment returns on offer for the periods in question.

6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

There is an annual report submitted to Council prior to the commencement of that year detailing a treasury management strategy and the prudential indicators to be followed for the forthcoming financial period.

During the year reports are submitted to Council on the performance of the treasury management function for the previous year and a mid-year report on the performance of treasury management for the current financial period.

7 CASH AND CASH FLOW MANAGEMENT

Cash flow management is primarily driven by the need to ensure that the Council meets its **regular and significant payments e.g. Precepts, PWLB interest and NNDR tariff central share**. Investments made have this liquidity principle at the forefront of the decision making. **Up to date account statement information is readily available on-line through Bankline plus other on-line monitoring arrangements which have proved beneficial to cash flow management**. The monetary size of creditor payments are monitored to ensure that the Council has adequate funds to manage its liquidity position.

8 TRAINING AND QUALIFICATIONS

Fully experienced and qualified staff are employed in carrying out the treasury management function. Training needs are identified as part of staff appraisals undertaken on an annual basis and monitored throughout the year. Details of training courses are sent to the Council from accountancy firms and treasury management companies on an ad hoc basis and these are assessed on a needs basis.

The Audit and Governance Committee has received training on the treasury management function and future requirements will be assessed to provide this on an on-going basis, when deemed necessary.

MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes requires careful investment management. Such activity includes loan supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all its investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.