Derry City and Strabane District Council
Treasury Management Policy and Investment strategy

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1. Preamble

1.1 Purpose

This policy has been compiled to ensure compliance with the “Local Government Finance Act (Northern Ireland) 2011” which in turn requires compliance with the” CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition)” and the “CIPFA Treasury Management in the Public Services Code of Practice and Cross- Sectoral Guidance Notes (2011 edition)”.

1.2 Background

Section 23 of the Local Government Finance Act (Northern Ireland) 2011 permits a Council to invest:-

- For any purpose relevant to its functions under any statutory provision; and
- For the purposes of the prudent management of its financial affairs.

Council has borrowing powers under sections 6 to 13 of the Act with effect from 1 April 2012 and the onus on Council to determine and keep under review the amount of money it can borrow. To this end, Part 1 of the Act stipulates that Local Authorities have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition).

The Prudential code aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, that associated borrowing is within prudent and sustainable levels, and that treasury management decisions are taken in accordance with good professional practice. One of the requirements of the Prudential Code is that Council adopts “CIPFA Treasury Management in the Public Services Code of Practice and Cross- Sectoral Guidance Notes (2011 edition)”:

This treasury management code aims to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the Council’s borrowing and investment portfolios. The 3 key principles identified are:-

- Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
- Council’s policies and procedures should make clear that effective management and control of risk are prime objectives of its’ treasury management activities and that responsibility for these risks lies clearly within Council; and
- Council acknowledges that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valuable and important tools to employ in pursuit of its’ service objectives.

Section 25 of the Local Government Finance Act (Northern Ireland) 2011 also requires Council to have regard to such guidance as the Department may issue and to such other guidance as regulations may specify and, to this end, Council must comply with "Guidance on Local Government Investments for District Councils" issued by The Department of the Environment.

The Department guidance recommends that Council prepares for each financial year an investment strategy setting out the Council's policies for the prudent management of its' investments, giving priority, firstly, to the security of those investments and, secondly, to their liquidity. This strategy must be approved by full Council by 15th February in advance of the commencement of the financial year.

2. Scope

This policy applies to all Council employees and Elected Members who are in any way involved in:-

- the execution and administration of treasury management decisions;
- the implementation and monitoring of treasury management policies and practices; or
- scrutinising the effectiveness of the treasury management strategy and policies.

3. Definitions

Treasury management refers to the management of the organisation'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.

An **Investment** is a transaction which relies upon the power in section 23 of the Local Government Finance Act (Northern Ireland) 2011 and is recorded in the balance sheet under the heading of investments within current assets or long- term investments.

Two specific forms of **investment opportunity** arise within Council:-

(i) **Revenue investment opportunities**- these arise from;

a. the Council's accumulated District Fund balance;
b. the Council's rates and general grant monies being advanced to Council at the beginning of each month to cover expenditure for that month;
c. general working capital.

These give rise to short term investment opportunities, usually from 1 week to 4 weeks in duration.

(ii) **Capital investment opportunities-** these arise from the capital fund and other provisions accounts held within Council to fund specific longer-term commitments. These give rise to longer term investment opportunities ranging from 3 months to 1 year in duration.

Capital expenditure is defined as expenditure on an asset costing more than £5,000 which has physical substance, and which is expected to be used during more than one financial year.

4. Policy Statement

Derry City and Strabane District 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. Risk includes the risk of loss of capital sums invested as well as the risk of invested cash not being available when needed (**liquidity** risk). 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.

Derry City and Strabane District 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.

Borrowing will only be permitted;

- for the financing of capital (and other expenditure under capitalisation direction) which has been authorised by Council;
- once an appropriate business case/economic appraisal for the capital expenditure has been prepared; and

- in line with the affordable borrowing limit set by Council at the start of the financial year.

Council is not permitted to borrow in advance of need to profit from investment of the extra sums borrowed.

All treasury management decisions are carried out internally and the use of external service providers is not permitted without prior Council approval.

The following detailed treasury management practices have been developed to ensure achievement of these objectives:-

4.1 Treasury management practices

4.1.1 Roles and Responsibilities

Council

Council is responsible for:

- Approving the annual investment strategy and treasury management policy by 15th February;
- Approving the annual prudential indicators report and agreeing the Council's affordable and sustainable borrowing limits in advance of the year ahead.

Governance & Strategic Planning Committee

The Governance & Strategic Planning Committee of Council is responsible for:

- Reviewing on a quarterly basis the treasury management performance report. This will be presented as part of the "Quarterly Corporate Review" report;
- Reviewing on an annual basis the treasury management performance report;
- Approving any amendments to the annual investment strategy and treasury management policy;
- Approving investment institutions for investment by Council.

Lead Finance Officer

The Lead Finance Officer is responsible for:

- Presenting the annual investment strategy and treasury management policy to full Council by 15th February in advance of the financial year;

- Presenting and providing guidance to Council on the annual prudential indicators report;
- Reviewing the performance of the treasury management function and submitting the annual treasury management performance report and quarterly treasury management performance reports to Committee;
- Reviewing treasury management policy and practices on a regular basis, focusing on the risk implications, and revising where necessary.

Financial Accountant

The Financial Accountant is responsible for:

- Execution and administration of all treasury management transactions on a daily basis;
- Ensuring compliance with the treasury management policy and treasury management practices;
- Preparation of annual investment strategy and treasury management practices and necessary revisions;
- Monitoring performance on a daily basis and preparation of quarterly and annual performance reports;
- Maintaining relationships with investment institutions;
- Identifying and recommending opportunities for improved practices.

All investment transactions and transfers between bank accounts require the signature of 2 officers. Authorised officers for this purpose are:-

(1) Chief Executive;
(2) Lead Finance Officer;
(3) Lead Assurance Officer;
(4) Financial Accountant.

Internal Audit & Risk Services

Internal Audit & Risk Services are responsible for:

- Reviewing the treasury management policy, procedures and performance on an annual basis and making recommendations where required.

Audit Committee

The Audit Committee is responsible for:

- Reviewing on an annual basis the Treasury Management performance report;
- Receiving reports from the Head of Internal Audit and Risk Services and ensuring that all controls in place are adequate and operating effectively, and ensuring any recommendations made are implemented.

4.1.2 Training and qualifications

Any staff involved in the execution or administration of treasury management transactions or in the preparation of the annual treasury management policy and investment strategy must be a fully qualified accountant with membership of a professional body affiliated to CCAB. The Lead Finance Officer will continually review staff training needs in respect of Treasury Management skills. Training will be provided, as required, for elected members to enable them to provide effective scrutiny of the strategy and to have the knowledge to make informed decisions.

4.1.3 Decision-making, analysis and cash flow management

Revenue investment opportunities are identified by use of a daily cash-flow spreadsheet which is updated each day on receipt of the previous day's bank activity and notification of supplier payments runs. This provides a forecast for the month ahead and is critical in ensuring that Council is able to meet its' payment commitments and targets and for ensuring that the bank does not become overdrawn and incur excess interest charges. Investments are then placed as determined for periods ranging from 1 week to 6 months

To ensure that revenue investment opportunities are maximised, significant emphasis is placed on accounts receivable and income due to Council. To this end, a report will be prepared on a monthly basis by the Financial Accountant for review by the Lead Finance Officer, showing significant overdue amounts of money and their corresponding impact on investment results.

Capital investment opportunities are reviewed on a quarterly basis. A long term cash-flow spreadsheet, incorporating each project for which money has been allocated by Council, is prepared showing a forecast for expenditure for each quarter of the year ahead and identifying spare funds for investment. Investments are then placed for periods ranging from 1 quarter to 1 year.

All workings and rationale for investment decisions are held on file for audit purposes.

4.1.4 Banking facilities, risk management and approved instruments

Council's day to day banking services will be carried out by Northern Bank Limited trading as Danske Bank.

All excess cash identified from cashflow projections is to be invested with competitive quotations to be sought from Council approved institutions.

Due to the present major uncertainity in the banking sector, Council recognises that all investment activity involves a certain degree of risk. With this in mind, Council will only invest in an institution with a low risk of default and a good capacity for payment of financial commitments. In making this assessment, Council will consider all of the following:-

- **Credit ratings** provided by Fitch, Moody's and Standard & Poors which are updated on a regular basis;
- **Advice provided by Sector (Treasury Management Advisors)**
- **Other generally available market information-** this includes, quality financial press, market data and information on government support for banks, including the willingness and ability of the relevant government to provide adequate support.

Investments will only be placed in institutions once Council approval has been obtained for that institution through the Governance & Strategic Planning Committee.

An overall review of the authorised institutions will be carried out on a monthly basis by the Financial Accountant. Any adjustments to the credit ratings of approved institutions will be alerted to the Financial Accountant by "ratings watch notices". These will be considered along with other generally available market information and an update will be provided to the Lead Finance Officer. If amendments to the approved institutions are considered necessary, these will be reported to the Governance & Strategic Planning Committee.

Investment instruments used are restricted to fixed term deposit and call depost accounts with Council approved institutions with a maximum maturity date of 1 year. Council is therefore not permitted to invest funds for a period greater than 1 year due to the uncertainty of forecasting beyond this date.

Council revenue investments are rolled over on a weekly basis and capital investments are rolled over on a quarterly basis. Competitive quotations will be sought from all Council approved institutions for all investments with the investment allocated on the basis of highest interest yield to ensure value for money.

Council recognises the need for diversification of investments. This is not considered practical in relation to short-term investments (up to one month in duration), however, in seeking to achieve the best possible return on Council's long term investments, Council will seek to spread its' investments without significantly comprimising the investment return.

4.1.5 Capital expenditure and borrowing

Capital expenditure may be financed from the following sources:-
- Loan finance (loan or lease);
- Grant Aid;
- Capital receipts- proceeds from the sale of capital;
- Capital Funds and Repairs and Renewals Funds;
- Transfer of funds from revenue resources.

Council can only borrow to finance capital expenditure and other expenditure for which a capitalisation direction has been received. All borrowing will be undertaken using the cheapest source of finance available which will generally be from the Public Works Loan Board. Before these loans can be drawn down, a declaration must be made to the Department of Finance and Personnel, signed by both the Chief Executive and the Lead Finance Officer, that all the provisions of this section have been complied with. All borrowing will be in the form of fixed rate loans to ensure Council is not exposed to future interest rate uncertainty.

Capital expenditure decisions will be made in accordance with the capital expenditure and major corporate projects regulations which have been approved by Council. In summary these require appropriate business cases/ option appraisals to be prepared for approval by the Capital Projects and Corporate Programme Planning Group in advance of Committee report being prepared for final authorisation.

To ensure that the expenditure is affordable and sustainable, a number of prudential indicators will be presented on an annual basis to Council in the form of a report by the Lead Finance Officer. These indicators are as follows :-

- **Capital expenditure indicators**- these will provide details of actual capital expenditure for the current and prior financial year and estimated capital expenditure for the forthcoming 3 financial years and the associated financing requirements;
- **Affordability indicators**- these will demonstrate the impact of the capital expenditure plan and associated borrowing on the Council's District Rates and enable Council to consider if this is acceptable and sustainable;
- **External debt and prudence indicators**- these will summarise the Council's current borrowing in terms of amount, maturity and interest rates. They will also provide a projection of the impact of the capital plan on the future

borrowing position and help Council to impose an affordable borrowing limit and ensure that borrowing only takes place for the purposes of financing capital expenditure;

- **Treasury management indicator-** this basically provides assurance to Council that it is in compliance with "CIPFA Treasury Management in the Public Services Code of Practice and Cross- Sectoral Guidance Notes (2011 edition)".

4.1.6 Performance measurement

Performance of the treasury management function is to be reviewed on a regular basis by the Lead Finance Officer. A performance report will be submitted to Committee as part of the "Quarterly Corporate Review" on a quarterly basis and an annual summary will be submitted to full Council.

The performance report will identify the following:-

(i) Institutions invested in during the quarter;
(ii) Total interest earned for the quarter by institution with prior year comparatives;
(iii) Range of rates secured for the quarter by institution with prior year comparatives.

An update will be provided on the institutions authorised for investment.

In addition, this area will be subject to an annual internal audit, the results of which will be reported to Audit Committee.

5. Legal & Policy Framework

5.1 Legal Context

The detailed legal context is provided in the background notes to this policy (section 1.2).

This policy has been prepared to ensure compliance with the following pieces of legislation/ professional guidance:

- Local Government Finance Act (Northern Ireland) 2011;
- CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition);
- CIPFA Treasury Management in the Public Services Code of Practice and Cross- Sectoral Guidance Notes (2011 editionTo show favour or disfavour to any person;
- DOE Guidance on Local Government Investments for District Councils in Northern Ireland.

5.2 Linkage to Corporate Plan

This policy will have a positive impact on the new Council's corporate plan in ensuring that the resources available from Derry City and Strabane District Council assets are protected and maximised and that value for money is obtained.

6. Impact Assessment

6.1 Screening and Equality Impact Assessment

A Screening Questionnaire has been completed. The Policy is to be screened out for Equality Impact Assessment.

6.2 Impact on staff and financial resources

This policy will have no impact on staff and no cost implications. It is anticipated that the practices identified in the policy will have a positive impact on financial resources

6.3 Sustainable development

There will be no sustainable development impact as a result of this Policy.

7. Implementation

7.1 Support and Advice

Advice and guidance on this Policy may be obtained from the Financial Accountant or Lead Finance Officer.

7.2 Communication Strategy

All Council employees and Elected Members who are in any way involved in:-

- the execution and administration of treasury management decisions;
- the implementation and monitoring of treasury management policies and practices; or
- scrutinising the effectiveness of the treasury management strategy and policies;

will be provided with a copy of this Policy. Staff and Elected members will be advised if further information is required in relation to the Policy to contact the Financial Accountant or Lead Finance Officer for advice and guidance

7.3 Risk Management

Failure to effectively implement this Policy increases the risk of the Council not achieving the highest possible standards corporate governance in terms of openness, probity, transparency and accountability. This Policy will be monitored regularly to ensure that it is being implemented.

8. Monitoring, review and evaluation

This Policy will be reviewed as required in January 2016 by the Financial Accountant in advance of the 2016/17 financial year

9. Acknowledgements

CIPFA guidance in the form of the “CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition)” and the “CIPFA Treasury Management in the Public Services Code of Practice and Cross- Sectoral Guidance Notes (2011 edition)” was used as a reference point as required for policy content and principles.