

# Annual Treasury Management Governance Report

Date: 24<sup>th</sup> September 2021

Report of: Chief Officer Financial Services

Report to: Corporate Governance and Audit Committee

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

## What is this report about?

1. This annual report provides assurance that the Treasury Management (TM) function is operating within its governance framework.
2. TM fully complies with the current CIPFA Code of Practice, the Prudential Code and the latest revised guidance notes for practitioners.
3. Since the last update all borrowings and investments undertaken by Treasury Management have been in accordance with the approved governance framework.
4. TM operates within the governance framework and uses additional market intelligence and information gathered from a variety of sources. These sources have been integral to protecting the authority from undue risk in the financial and money markets.
5. Internal Audit has provided substantial assurance on the control environment and compliance in their 2019/20 audit report and have updated the audit regime in relation to Treasury Management (see 2.9 below).

## Recommendations

Members are requested to note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2017 and revised CIPFA guidance notes issued in 2018. All borrowing and investments undertaken by Treasury Management have been compliant with the governance framework.

## Why is the proposal being put forward?

- 1.1 This annual report outlines the governance framework for the management of the Council's Treasury Management function.
- 1.2 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities 2017. In particular the Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators.
  - Any in year revision of these limits must be set by Council.
  - Policy statements are prepared for approval by the Council at least two times a year.
- 1.3 Treasury Management is responsible for managing external debt relating to the Housing Revenue Account and General Fund, which is in the region of £2,265m, and investments that currently stand at around £175m, as at 2<sup>nd</sup> September 2021. It also manages the cash flow requirements of the Council.

## What impact will this proposal have?

### Wards Affected:

Have ward members been consulted?      Yes      No

- 2.1 The role of the Corporate Governance and Audit Committee is to ensure that Treasury Management is adhering to and operating within its governance framework, as shown in Appendix A. Also attached at Appendix C is the cycle of control as it relates to Treasury Management and its operations.
- 2.2 During the year Treasury Management have continued to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, Prudential Code (2017) and its guidance notes (2018). As such a strategy report was presented to Executive Board on 12th February 2020 followed by an update on 18th November 2020. A further outturn report for the 2020/21 financial year was presented on 21st June 2021. For the Year 2021/22 a strategy report was presented to Executive Board on 10th February 2021 and an update report will be presented in November 2021.
- 2.3 During the year all borrowings and investments undertaken by Treasury Management have been in accordance with the approved governance framework and are in line with the Treasury Management Policies and Practices.
- 2.4 The Council's total external borrowing Capital Financing Requirement CFR i.e. the amount required to fund previous and current capital expenditure was circa £2,565m and its Long Term Assets (excluding those financed by PFI and finance lease liabilities) are valued at £5,846m as at 31 March. The setting and monitoring of the capital programme seeks to ensure that we invest in and maintain our assets whilst supporting the best council plan priorities. The Treasury Management strategy determines the revenue affordability of the programme.
- 2.5 Treasury Management continues to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk. The strategy updates to Executive Board include an update on prudential indicators. TM is complying with all of CIPFA's prudential indicators as shown at Appendix B, as reported to Executive Board on 10th February 2021. CIPFA is currently consulting on a revision to the Codes of practice and

these are expected to be published in December 2021 with the aim of adopting any changes to these codes for the 2022/23 financial year. This update to the codes is primarily expected to tighten the regime in relation to risks to local government from borrowing to invest primarily for yield which several councils have engaged in during recent years.

- 2.6 Internal Audit has completed its annual review of the TM function for the year 2019/20 which is the most recent audit review. This involved a risk-based system audit of TM to evaluate and validate key systems controls.
- 2.7 The Public Sector Internal Audit Standards require Internal Audit to set a risk-based plan to determine the priorities of the internal audit activity, therefore the coverage of the Key Financial Systems audits including Treasury Management has been reviewed. As Treasury Management has consistently received a substantial opinion for the control environment it has been proposed to reduce the completion of a full audit to every three years, although this would be flexible to be able to react to system and other control environment changes. However due to the value of transactions being undertaken, the intention is to continue to provide assurance on the compliance with controls through use of data analytics to review the accuracy of these transactions throughout the year.

#### Treasury Management & Bankline Audit 2019/20

Key controls for a sample of investments, loans and interest payments for 2019/20 were reviewed. The Internal Audit report issued 5th June 2020 provided the highest level of assurance for the control environment and compliance with the control environment.

### **What consultation and engagement has taken place?**

- 3.1 There has been no consultation in relation to this report.

### **What are the resource implications?**

- 4.1 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 12th February 2020 and 10th February 2021.

### **What are the legal implications?**

- 5.1 The legislative framework which governs TM is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury Management Code of Practice, the prudential code for Capital 2017 and revised guidance notes issued in 2018 as revised.
- 5.2 There are no legal or access to information issues arising from this report.

### **What are the key risks and how are they being managed?**

- 6.1 As set out in the Treasury Management Policy Statement, TM activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.
- 6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.
- 6.3 In recent years the Treasury strategy has taken advantage of the low short-term interest rates to partly fund its long-term borrowing requirement. The Council's balance sheet

strength has also been used to defray long term borrowing and avoid the risk associated with external Treasury Management investments.

- 6.4 The 2020 February Executive Board update report highlighted that the borrowing strategy was updated during 2019/20 with the emphasis now on locking out risk in the Treasury Management debt budget by taking longer term loans at historic low rates to fund the borrowing requirement of the capital programme and from internal cash balances, and this strategy has been maintained during 2020/21 and into 2021/22.
- 6.5 In March 2020 in response to the COVID pandemic the Bank of England cut rates first 0.25% from 0.75% and then to 0.1% on 19th March 2020 where they have since remained. Increases are expected going forward, but expectations are that these increases will be introduced slowly and steadily. Pending locking out risk by taking longer term funding during the year, the amount of debt that the Council was funding from short term loans and its balance sheet was £335m at 31/03/2021. This exposure is considered manageable given historical capital programme slippage, the strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile.
- 6.6 The Council's current long-term debt of £2,249m has an average maturity of just under 36 years if all debts run to maturity. Approximately 10% of the Council's long-term fixed debt has options for repayment within LOBO (Lenders Option Borrowers Option) loans. (This excludes Barclays former LOBO loans which are now fixed). In the unlikely event that all these options were exercised at the next option date then the average maturity of long-term debt would be lowered to just over 31 years. This compares favourably with the average maturity of the UK's government gross debt portfolio of 15.26 years. The existing profile of the Council's debt provides considerable certainty of funding costs with 79% or £1,770m of its total debt maturing in periods greater than 10 years.
- 6.7 The LOBO loans that many Local Authorities issued up to 2007/08 have been used successfully over the last 20 years to reduce the Council's interest costs in comparison to Public Works Loan Board (PWL) funding available at the time. These loans also introduced short to medium term re-financing risk at a time when the average maturity of the Councils debt portfolio was becoming very long. In essence the standard LOBOs that the Council has issued are long dated loans, which after an initial fixed period, contain an option whereby the lender only can vary the rate of interest on the loan, but only at specific intervals. These periods are every 3, 5 or 6 years depending on the specific loan. If the lender exercises the option, the Council then has the option to accept the change or to repay the loan without any penalty cost and repay the principal in full. No options have been exercised since 2008 and in the current economic climate these loans are essentially fixed.

### **Does this proposal support the council's 3 Key Pillars?**

Inclusive Growth       Health and Wellbeing       Climate Emergency

- 7.1 Efficient borrowing, investment and debt management supports the capital programme funding requirements. Schemes within the capital programme support the Councils priorities.
- 7.2 The execution of the Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.
- 7.2 This report does not have any direct equality and diversity/cohesion and integration issues.
- 7.3 The Council declared a Climate Emergency at full Council in March 2019. As the Treasury Management strategy secures funding for the Council's capital programme the impact of the

Council's activity and implications for the climate emergency will be considered in each individual capital programme and scheme project report.

## **Options, timescales and measuring success**

### **a) What other options were considered?**

This report confirms that the treasury management governance framework is up to date and fit for purpose, that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2019/20 Internal Audit report gave TM substantial assurance on both control and compliance. It also confirms that the strategy is being monitored and reported back to Executive Board and full Council as appropriate. As such other options are not considered in this report.

### **b) How will success be measured?**

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2017 and revised CIPFA guidance notes issued in 2018. All borrowing and investments undertaken have been compliant with the governance framework. Success will therefore be the continued optimal performance of the Treasury Management function within this framework.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolio's and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason. The latest benchmarking exercise was undertaken in January 2021 as at the balance sheet date of 31/03/2020 for a comparison of external debt in relation to fixed assets for the core cities and significant variations in the resultant metrics were noted.

### **c) What is the timetable for implementation?**

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

## **Appendices**

- 1 Appendix A - Treasury Management Governance Framework
- 2 Appendix B - Prudential Indicators reported to Executive Board 10<sup>th</sup> February 2021
- 3 Appendix C - Cycle of Internal Control

## **Background papers**

- 1 N/A

## Appendix A

### Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	STRATEGY AND RESOURCES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
↓ DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Part 3 Section 3E(d) Officer Delegation Scheme	To Chief Officer Financial Services	to discharge the following functions  1) Ensuring effective financial management and controls, including: - b) managing the Council's borrowing and investment requirements;	
Miscellaneous Functions - Financial Regulation 23: Treasury Management Page 35	Function delegated to Chief Officer (Financial Services).  Delegated to Head of Finance – Technical.	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements	

**↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK**

POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Deputy COFS Head of Finance - Technical Senior Finance Manager Assistant Finance Managers	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code MHCLG Investment Guidance Notes	Head of Finance - Technical Senior Finance Manager Assistant Finance Managers	Ensure compliance and that any changes are reflected in the operating framework.

No.	PRUDENTIAL INDICATOR	2020/21	2021/22	2022/23	2023/24
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS</b>					
<b>1a</b>	<b>Ratio of Financing Costs to Net Revenue Stream</b>				
	General Fund (Borrowing Only)	19.08%	20.58%	21.09%	21.20%
<b>1b</b>	General Fund (Borrowing and Other Long Term Liabilities)	28.28%	30.25%	30.24%	29.98%
<b>2a</b>	HRA (Borrowing Only)	11.60%	11.45%	11.69%	11.88%
<b>2b</b>	HRA (Borrowing and Other Long Term Liabilities)	18.32%	18.14%	18.25%	18.21%
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>5</b>	<b>Gross external borrowing requirement (Gross Debt and CFR)</b>	2,323,726	2,496,690	2,652,690	2,756,654
	The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	OK	OK	OK	OK
	<b>Estimate of total capital expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>6</b>	General Fund	357,890	367,147	251,853	120,518
<b>7</b>	HRA	78,649	160,045	163,569	128,450
	TOTAL	436,539	527,192	415,422	248,968
	<b>Capital Financing Requirement (as at 31 March)</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>8</b>	General Fund	2,357,637	2,433,735	2,511,249	2,548,533
<b>9</b>	HRA	814,503	860,834	911,706	949,570
	TOTAL	3,172,140	3,294,569	3,422,955	3,498,103

No.	PRUDENTIAL INDICATOR	2020/21	2021/22	2022/23	2023/24
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>					
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>10</b>	<b>Authorised limit for external debt</b>				
	borrowing	2,800,000	3,000,000	3,150,000	3,200,000
	other long term liabilities	700,000	670,000	630,000	600,000
	TOTAL	3,500,000	3,670,000	3,780,000	3,800,000
<b>11</b>	<b>Operational boundary -</b>				
	borrowing	2,650,000	2,850,000	2,850,000	2,850,000
	other long term liabilities	680,000	650,000	610,000	580,000
	TOTAL	3,330,000	3,500,000	3,460,000	3,430,000
<b>14</b>	<b>Upper limit for fixed interest rate exposure (note 5)</b>				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
<b>15</b>	<b>Upper limit for variable rate exposure (note 5)</b>				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>17</b>	<b>Upper limit for total principal sums invested for over 364 days (Note 6)</b>	150,000	150,000	150,000	150,000
<b>18</b>	<b>Net Debt as a percentage of Gross debt</b>	98.28%	98.40%	98.49%	98.55%

16	Maturity structure of fixed rate borrowing 2020/21	Lower Limit	Upper Limit	Projected 31/03/2021	
	under 12 months	0%	15%	1%	
	12 months and within 24 months	0%	20%	4%	
	24 months and within 5 years	0%	35%	10%	
	5 years and within 10 years	0%	40%	7%	
	10 years and within 20 years			6%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	36%	79%
	40 years and within 50 years			31%	
	More Than 50 Years			6%	
<b>Notes.</b>				100%	

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)
- The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addition Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported
- In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review
- Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Government act 2003

## Appendix C: Treasury Management arrangements – cycle of internal control

### Introduction

The information in this appendix is based around a 'cycle of internal control framework' which consists of five aspects; define and document; clearly communicate; effectively embed; meaningfully monitor and review and refine.

It should also be noted that Leeds City Council provide Treasury Management services to the West Yorkshire Combined Authority under a service level agreement. The Agreement provides for WYCA to adopt the processes and procedures of Leeds City Council and as a result, this document applies equally to both LCC and WYCA except where specific divergences are identified. Operationally Treasury Management reports directly to WYCA on WYCA treasury management issues which closely mirror those in place at Leeds.

### 1. Define and document

#### 1.1. Policy and Strategy

1.1.1 Treasury Management in local government is subject to several legal and professional codes which forms the framework for Treasury Management in local government.

- Local Government Act 2003 Chapter 26 Part 1 (LGA)
- Statutory Instruments on Capital Finance and Accountancy (SI's)
- CIPFA Prudential Code for Capital Finance in Local Authorities 2017
- CIPFA Treasury management in the Public Services – Code of Practice and cross sectoral Guidance notes 2017 (Together the Code of Practice – COP)
- Ministry of Housing Communities and Local government revised guidance on investments 2017 (MHCLG)
- Public Works Loan Board (PWLb) circulars on lending policy
- The Bank of England (BOE) UK Money Markets Guide
- LAAP Bulletins
- EU Markets in Financial Instrument Directive II (MIFID II)

1.1.2 The LGA 2003 states in section 15 Guidance that,

- (1) In carrying out its functions under this Chapter, a local authority shall have regard—
  - (a) to such guidance as the Secretary of State may issue, and
  - (b) to such other guidance as the Secretary of State may by regulations specify for the purposes of this provision

The Secretary of state has specified that the CIPFA codes of practice are guidance to which a local authority must have regard under (b) and therefore have the effect of law.

1.1.3 Treasury Management is defined as

*“The management of the organisation's borrowing, 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.”*

1.1.4 The Codes also specify and recommend a number of other requirements such as

Roles and responsibilities (detailed in 1.2 below), monitoring and oversight (detailed in 1.3 below) and provides and outline for considerations to be taken into account when setting strategy and managing risk including setting of suitable prudential indicators in relation to treasury management activity and the capital programme.

## 1.2. Roles and responsibilities

### 1.2.1. Full Council

The Council is responsible for determining the borrowing limits detailed in 1.3.1 below. Other responsibilities and duties are delegated as follows

### 1.2.2. Executive board

Receives 3 reports a year and has responsibility for determining and reviewing treasury strategy and performance as detailed in 1.3.2 below

### 1.2.3. Corporate Governance and Audit Committee

Receives a report annually on the compliance of treasury management with the strategy and the adequacy of its controls and systems as set out in 1.3.6 below

### 1.2.4 The Chief Finance Officer

Through him/her to his/her staff has delegated powers for all borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Chief Officer Financial Services and staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities. The Chief Officer Financial Services is the person charged with professional responsibility for the treasury management function. This person will carry out the following duties: -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.
- The Chief Officer Financial services has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- The Chief Officer Financial services may delegate their power to borrow and invest to members of their staff,
  - Deputy Chief Officer Financial Services
  - The Head of Finance - Technical,
  - The Senior Treasury Manager and
  - The Assistant Finance Managers.
- The Treasury Management Team must conduct all dealing transactions, or staff authorised by the Chief Officer Financial services to act as temporary cover for leave/sickness. All transactions must be initiated and authorised by one of the named officers above with Division of duties checks carried out by the back-office staff.
- The Chief Officer Financial services will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Officer Financial Services to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- It is also the responsibility of the Chief Officer Financial Services to ensure that the Council complies with the requirements of UK Money Markets Code for principals and broking firms in the wholesale markets.

1.2.5 The treasury management governance framework and the delegations within the Resources Directorate and specifically to the Chief Officer Financial Services shall operate on the following basis

- a) The practical organisation within the Resources Directorate is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group (FPG) attended by the Chief Officer Financial Services, Deputy Chief Officer Financial Services and Heads of Finance. Quarterly, treasury strategy review meetings take place with the Chief Officer Financial Services, Deputy Chief Officer Financial Services, the Head of Finance - Technical and the Senior Finance Manager.
- b) Implementation of decisions at such meetings and the day to day management of the Treasury Operations are delegated without limit to the Chief Officer Financial Services or in his/her absence and through him/her to either the Deputy Chief Officer Financial Services, Head of Finance – Technical, the Senior Finance Manager and on occasions the Assistant Finance Managers.
- c) Consultations will be made by the Chief Finance - Financial Services on Treasury Management matters with:
  - The Chief Executive: so that he/she can ensure proper Treasury systems are in place and are properly resourced.
  - External Treasury Advisers: so that they can advise and monitor the process of fixing strategy and policy on Treasury Matters and advise on the economic outlook, prospects for interest rates and credit worthiness

1.2.6 Deputy Chief Officer Financial Services, the Head of Finance - Technical / Senior Treasury Manager / Assistant Finance Managers

The responsibilities of these posts will be: -

- execution of transactions
- adherence to agreed policies and practices on a day-to-day basis
- maintaining relationships with counterparties and external service providers
- supervising treasury management staff
- monitoring performance on a day-to-day basis
- Identifying and recommending opportunities for improved practices.

1.2.7 The Chief Executive

The responsibilities of this post will be: -

- Ensuring that the system is specified and implemented
- Ensuring that the Chief Officer Financial Services reports regularly to full Council and the Executive Board on treasury policy, activity and performance.

1.2.8 The Monitoring Officer – City Solicitor

The responsibilities of this post will be: -

- Ensuring compliance by the Chief Officer Financial Services with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Chief Officer Financial services when advice is sought.

#### 1.2.8 Internal Audit

The responsibilities of Internal Audit will be: -

- Reviewing compliance with approved policy and treasury management practices.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

### 1.3. Democratic Oversight

#### Full Council

1.3.1. Treasury Management strategy for the upcoming year is set in February before the start of the year in the Treasury Management Strategy Statement (TMSS). This is provided in the form of a report to Executive board and to full Council and within the CIPFA codes is a recommendation that only Full Council can set certain Prudential indicators such as,

- Authorised Limit (maximum amount of borrowing than can be outstanding)
- Operational Boundary (a lower working limit of the above)
- Upper limit for Fixed Interest rate exposure.
- Upper limit for variable rate exposure.
- Upper and lower limits on fixed interest maturity structure (Set by Time band).
- Treasury management Investments Strategy and Limits.

1.3.2 The TMSS can also have as an appendix called the Treasury Management Policy Statement (TMPS) which is a standing document that is only updated from time to time, but which covers many of the topics in this document in terms of,

- Objectives of Treasury management
- Approved activities of the Treasury management operation.
- Formulation of the treasury management Strategy
- Approved methods and sources of raising capital finance
- Approved Instruments and Organisations for investments
- Investments on Behalf of Council managed Charities and trusts
- Policy on Interest rate Exposure
- Policy on External managers
- Policy on Delegation and review requirements and reporting arrangements

#### Executive Board

1.3.3 Have sight of the TMSS before approval by full Council in February every year.

1.3.4 Receive a half year update in November every year on the activity and projections for the current year

1.3.5 Receive a report after the end of the year in June which reports on the outturn against strategy

#### Corporate Governance and Audit Committee

- 1.3.6 Every year the CGA committee receives a report and the assurance and soundness of the Treasury management operation including an internal audit assurance report on the systems and compliance with the framework of the treasury management operation

## **2. Clearly communicate**

### **2.1. General**

The following communication is undertaken by Treasury management.

- 2.1.1. Full Council/Executive board receive a minimum of 3 reports per year as detailed in 1.3.3 to 1.3.5
- 2.1.2. Corporate Governance and Audit committee receive a report annual as detailed in 1.3.6 above
- 2.1.3. Finance performance group (FPG) receive a monthly dashboard on Treasury Management Projections covering a ten-year period.
- 2.1.4 Quarterly Strategy meeting are held with the Chief Officer Financial Services, TM staff and the Council's external Advisors.
- 2.1.5 Daily Conversations are held with Brokers operating in the London money markets to advise on Council borrowing and lending needs and to update/refresh on current market dynamics and offerings on both short and long term borrowing and lending opportunities.
- 2.1.6 Ad hoc advice and information is provided to the Chief Officer Financial Services, Councillors external member of the public/organisations (through FOI requests) on market activity/transactions and projections as required.
- 2.1.7 Ad hoc advice and information is provided internally to colleagues on Capital Programme proposals in terms of the revenue impact of proposals.
- 2.1.8 The Head of Finance – Technical reports on the revenue impact of capital proposals monitored through Strategic investment Board (SIB) and Asset management Board (AMB).

### **2.2. Training**

- 2.2.1. A presentation and training are provided to members of CGA periodically and usually after every election cycle
- 2.2.2 Officer training is conducted through a variety of methods and includes,
- Formal Training i.e. delivered by our Treasury Advisors (CPD qualifying)
  - Attendance at suitable market seminars and events such as Local Authority Treasury Investment Forum (LATIF) and CIPFA Conference.
  - Individual Research such as Market communication from brokers/market participants/financial press
  - Internal Training covering mentoring, Use of Guidance notes, briefings and one to one meeting.

### **2.3. Guidance**

As detailed in 1.1 the operation of Treasury Management is governed by both internal and external factors both Statute, Code of Practice, Accountancy rules and internal policies and procedures. Over and above these the following internal Guidance tools are utilised.

- 2.3.1. A detailed procedure manual exists and is available for use by new and current officers within Treasury Management.
- 2.3.2 All staff are encouraged and supported to undertake all training necessary on PAL system as these become available such as information governance etc.
- 2.3.3. Senior Management provide advice, guidance and training to junior staff members as required

#### 2.4. Leadership

The Treasury Management function is managed on a day to day basis by the Head of Finance - Technical who will report directly to the CFO and Deputy CFO and manage the workflow of the TM team including all aspects of communication and reporting.

- 2.4.1. As detailed in 1.3.1 to 1.3.3 Reports are provided on a regular basis to Full Council/ Executive board/ CG&A
- 2.4.2 Chief Officer Liaison with members, Chief Executive, CLT
- 2.4.3 The Heads of Finance represents the COFS on various boards covering TM/Finance issues such as SIB/AMB and specific boards with a capital finance aspect.
- 2.4.4 Ad hoc advice and guidance is provided to members / colleagues / external contacts and counterparties as needed

### **3. Effectively embed**

#### 3.1. Stakeholder engagement

The main stakeholders in the Treasury management functions are as follows,

- 3.1.1. Executive board are consulted and engaged with via the reporting structure detailed at
- 3.1.2 Chief Finance officer. TM reports directly to the CFO on the projections of Debt costs over the period of the MTFS to support the CFO in delivering their responsibilities in relation to financial control. Further any Long-term borrowing decision are fully consulted on with the CFO before being executed under the TM scheme of delegation. Consultation is undertaken via the reporting through FPG and in setting the MTFS
- 3.1.3 Brokers, these are external organisations operating in the City of London and provide services in relation to both long and short term borrowing and investments. These engagements are undertaken on a daily basis with TM staff and provide a robust and detailed flow of information and market intelligence, bid/offers in the market and requirements of the Council.
- 3.1.4 Counterparties all trades are confirmed with Counterparties directly and on top of this regular meeting and discussions are undertaken with for instance banks regarding services and potential funding from these sources.
- 3.1.5 WYCA - Structured and ad-hoc information flows and engagement with WYCA is undertaken.

Treasury Strategy is reviewed in detail 4 times a year with the Director of Resources and Head of Finance at WYCA

LCC staff present to the Audit and Governance committee of WYCA on an annual basis.

Regular information flows and requests are undertaken at an operation level on a range of processes as they relate to the WYCA TM operation including monthly reporting and day to day requests information on activity, forecasts and cash drawdowns for the operational arm of WYCA.

3.1.6 MHCLG Regular reporting is undertaken and covers the following reports with a treasury management aspect.

- Monthly Borrowing and lending (MBL)
- Capital Outturn Return (COR)
- Capital Estimates Return (CER)
- Capital Payments return (CPR4)
- PWLB Certainty Return

3.1.7 PWLB as the main source of funding to Local Government the Council has long standing links to PWLB. The Council completes a return to PWLB every year to gain access to the PWLB certainty rate which are 20bp below PWLB standard rates (This is called the PWLB certainty return). The PWLB also publishes updates to its lending arrangements on a regular basis and these are detailed on its website along with other information such as Current and historic interest rates.

3.1.8 Internal Audit

3.1.9 Core Cities - usually meetings are held with Core cities to discuss features of the market and economic environment regarding Treasury Management issues

3.1.10 Requests from members of the public, usually through FOI requests, are dealt with fully and promptly in relation to Treasury Management activity.

### 3.2. Clear systems and processes in place

TM systems and processes are well established and changes to these are evolutionary rather than revolutionary. A new main TM system has been purchased and is in the process of being implemented but has been delayed due to COVID pressures on available resources in IDS and TM.

3.2.1. TM Systems utilise a mixture of

- Access Databases (being replaced by the new web-based TM system)
- Spreadsheets
- Adobe acrobat documents (Including Digital Signature to main division of duties evidence in a paperless environment).
- Market Information System (Proquote/IRESS)
- Banking System (Bankline – provided by Nat West as part of the banking contract)
- FMS LCC main finance system.
- OneNote user guides and manuals

These systems and procedures are detailed and updated in OneNote documents which are available to all officers involved in the TM function.

3.2.2. The online banking facility (Bankline) is again documented in OneNote and clear well-established procedures and workflow instructions are documented and updated as necessary.

3.2.3 The system of control and compliance with those controls are audited on a regular basis by Internal Audit and the results of this audit are reported to CG&A committee as part of the annual TM report to this body

## 4. Meaningfully monitor

### 4.1. Benchmarking

Structured benchmarking is not undertaken as the individual authorities in, say, the Core Cities can be widely divergent due to historic decisions taking place within each authority. In addition, it is important to note the Prudential Indicator system in place for all Local Authorities should not be used for benchmarking purposes and this is explicitly stated within the CIPFA code itself.

- 4.1.1. Core Cities benchmarking. Some benchmarking is undertaken on an ad-hoc basis and a recent exercise was undertaken following a Councillor request in relation to the level of external debt against the value of fixed assets. Also, from time to time the Core Cities TM group will provide and collate comparative debt and investment statistics.
- 4.1.2. Advisors. The Councils TM advisors also provide core cities comparative statistics usually after the end of the year covering a range of appropriate TM indicators such as level of debt etc.

### 4.2. Performance indicators robust and challenging

- 4.2.1 Prudential indicators as set by Full Council are reported on in each of the 3 reports outlined at 1.3.1 to 1.3.3. These reports compare a 4-year forecast and limits in the February TMSS report and a comparison of the strategy to the latest projections at the half year and end of year reports.
- 4.2.2. FPG receives a monthly report and update on the performance of treasury management including the revenue impact of the Capital programme, Debt and investment Portfolios. This includes full details of any changes to projections over the current and next financial years as well as comparison of the TM debt projections against the MTFFS to allow early and robust action to be taken.
- 4.2.3 The FPG report also compares for the current and future years the projections for debt costs and income against strategic debt budget for the current year and monitors against this Monthly. The aim being to identify and report any potential unanticipated savings or costs as they are recognised.

### 4.3. Risks identified and mitigated

- 4.3.1. The TMSS strategy report outlines in detail the current risks to Treasury Management strategy including any known external risks to the proposed strategy. This is informed by the Treasury Management Practices (TMP's) document. Any risks identified are also analysed and mitigated as far as practicable within the strategy setting process.
- 4.3.2. Treasury Management Practices document (TMP's) is an internal document which outlines the major classifications and risks relevant to the treasury management operation and TMP1 details these risk as outlined below. This document is updated from time to time as necessary and is based on the general risks identified within the CIPFA Codes of Practice but annotated for a Leeds City Council perspective and attitude to risk.

- Credit and Counterparty Risk
- Liquidity Risk management
- Interest rate risk management
- Exchange rate risk management

- Refinancing risk Management
- Legal and regulatory Risk management
- Fraud, Error and Corruption and contingency Management
- Market risk management

4.3.3 The TMP document also covers and deals with the following areas from an operational perspective. This document therefore covers the requirements of this cycle of control document but is set out along the lines proscribed in the CIPFA Codes of Practice and has been in place since the introduction of the codes in the mid 1990's

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregations of responsibilities and dealing arrangements
TMP6	Reporting requirements and managing information arrangements
TMP7	Budgeting, accounting and audit arrangements.
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and Qualifications
TMP11	Use of external service providers
TMP12	Corporate governance
TMP13	Non treasury investments

#### 4.4. Escalation process in placed and used appropriately

4.4.1. As stated, the TMSS outlines not only the strategy and risks to that strategy but also any mitigations necessary and reasonable to deal with those risks.

4.4.2. Further to this the FPG reporting process also details performance and any emerging risk to the strategy as set in the TMSS and this process is iterative with mitigations being identified and applied as risk emerge.

4.4.3 Quarterly Strategy meeting with the COFS, DCOFS, TM staff and the Councils Treasury Advisors take place with a view to identifying risk and opportunities which are emerging in relation to the Councils strategy and to identify any mitigations that could be applied to address risks identified.

4.4.3 Markets and market intelligence are sourced daily through, financial press, Money market service, communication from our treasury advisors and daily discussions with broker contacts. These information flows are further used to inform and update the current risk facing the treasury management operation and strategy.

## 5. **Review and refine**

### 5.1. Up to date and fit for purpose

5.1.1. The following areas can be and are updated from time to time and well understood processes are followed in all cases

Legislation including Statutory Instruments (e.g. Local Government Act 2003 (Last major updated 2002/2003 to the previous 1989 act)

CIPFA Codes of practice (the Codes Last updated 2017 however a new update is expected in December 2021)

PWLB (Last update on lending arrangements was 2021)

Accounting rules (updated annually)

Other Guidance and market Practice

5.1.2 As any of the above legislation, rules, Codes and best practice is updated then the following process usually occurs depending on the nature and severity of the change

#### Consultation

The Council will submit a response in relation to any consultation on changes that impact Treasury Management.

#### Issuance

Any changes made will be analysed and the impact of changes detailed for adoption and to ensure compliance.

#### Reporting

Initially, reporting will be made to the CFO but will also be included where appropriate in the Strategy report provided to full council and executive board. If these changes are extensive then they may be the subject of a separate report.

#### Adoption

Systems and procedures will be updated as necessary to ensure compliance with any changes in any of the areas identified at 5.5.1. This will include changing any of the reports documents and process identified in this document.