Appendix 3

Armagh City, Banbridge & Craigavon Borough Council

Treasury Management Policy

Background

Regulation 19 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 requires the Council, in carrying out its capital finance functions, to have regard to the CIPFA Code of Practice in 'Treasury Management in the Public Services'.

The Local Government Finance Act (Northern Ireland) 2011, section 25(1), also requires a Council to have regard to guidance issued by the Department of The Environment on Local Government Investments.

This Policy, and the associated Treasury Management Practices and Treasury Management Strategy for 2016/17, have been set in the context of the aforementioned Guidance and Regulations.

In setting this policy Armagh City, Banbridge & Craigavon Borough Council is thereby adopting the key principles of CIPFA's Treasury Management in the Public Sector: Code of Practice as described in section 4 of that code.

Accordingly, the Council will create and maintain as the cornerstones for effective treasury management:

1. A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
2. Suitable 'Treasury Management Practices' (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

Treasury Management Policy

The Council defines its treasury management activities as:

- The management of its 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.
- This 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 Council, and any financial instruments entered into to manage these risks.
- 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.

The Council delegates the responsibility for the implementation, regular monitoring and approval of its treasury management policies and practices to the Finance and Resources Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer. The Council will receive reports on its treasury management policies, practices and activities including an annual strategy and plan at the beginning of the financial year, a mid-year report on investments made and an annual report after the close of the financial year.

Treasury Management Practices

CIPFAs Treasury Management Code of Practice recommends that an organisation's Treasury Management Practices (TMPs) include those from the following list that are relevant to its treasury management powers and activities: -

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management 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

TMP1 Risk Management

General statement

The Chief Finance Officer will be responsible for:

- The design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk;
- An annual report on the adequacy of these arrangements; and
- A report, as a matter of urgency, on the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the Councils Annual Treasury Management Strategy.

1. Credit and Counterparty Risk Management

This 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. The Council will limit its investment activities to the instruments, methods and techniques listed in its annual Treasury Management Strategy and with the counterparties listed within the same document.

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 service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and where it is for the purposes of the prudent management of its financial affairs. It will not borrow purely to invest at a profit.

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. This will be achieved by the prudent use of its approved financing and investment instruments.

4. Exchange rate risk management

This is not considered to be a material risk for the Council.

5. Refinancing Risk Management

This has not been identified as a risk for the Council as the Council currently has no plans to enter into any refinancing arrangements. Recent experience has shown that penalties in respect of early redemption of loans outweigh the benefits of re-financing the loans at lower interest rates.

On those occasions where the Council agrees that re-financing is necessary the organisation will ensure that its borrowing and financing arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are as competitive and favourable to the organisation as possible whilst being mindful of the requirement to ensure the security of any investments.

6. 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. 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 organisation.

7. Fraud, Error and Corruption, and Contingency management

The Council will endeavour to identify 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.

8. Market 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 by ensuring that all investments are on a fixed rate basis.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, within the framework set out in its treasury management policy statement.

TMP3 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.

TMP4 Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Treasury Management Strategy.

TMP5 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, 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.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that mid-year reports are presented to Council regarding the implementation of its treasury management policies; on the income derived from decisions taken and transactions executed in pursuit of those policies; on the implications of any budgetary changes resulting from regulatory, economic, market or other factors affecting its treasury management activities. As a minimum the Council will receive an annual report on the strategy to be pursued in the coming year, and an annual report after the close of the financial year.

TMP7 Accounting and Audit 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. The Audit Committee will have responsibility for the scrutiny of treasury management practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared within Finance on a regular and on-going basis and these will be used for liquidity purposes to ensure the Council maintains a healthy cashflow position.

TMP9 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 counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained and that guidance is issued to reflect any changes in procedures.

TMP10 Training and Qualifications

The Council recognises the importance of ensuring that staff, and elected Members, involved in treasury management are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to provide training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

TMP11 Use of External Service Providers

The Council does not use any external providers in respect of Treasury Management services or practices but it has engaged with an external body regarding the provision of advice and guidance for investments. Officers will refer to this advice when considering which organisations to invest with, for what period and at what rates.

TMP12 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 principles of CIPFAs Treasury Management Code. This is considered vital to the achievement of proper corporate governance in treasury management.

TREASURY MANAGEMENT STRATEGY 2016/17

INTRODUCTION

This strategy statement sets out the expected treasury management operations for 2016/17 linked to the Council's Medium Term Financial Plan, Capital Investment Plan, and the Council's Corporate Plan. It is based in CIPFAs Treasury Management Code of Practice and the Prudential Code as well as Guidance from the Department of the Environment. It contains the following key requirements:

- The treasury management strategy.
- The reporting of the prudential indicators.
- The investment strategy.

This strategy provides an approved framework within which the officers undertake the day to day capital and treasury activities.

TREASURY MANAGEMENT STRATEGY

The strategy for 2016/17 in respect of treasury management covers:

(A) prospects for interest rates;
(B) capital borrowing;
(C) debt re-scheduling;
(D) annual investment strategy;
(E) treasury management advisers;
(F) prudential indicators.

(A) PROSPECTS FOR INTEREST RATES

Economists now forecast interest rates will remain unchanged in the immediate future from the current level of 0.5% although there is growing speculation that these will change in the medium to longer term. This will be kept under review.

(B) CAPITAL BORROWING

The borrowing requirement comprises the expected movement in the Capital Financing Requirement. In terms of meeting the external borrowing requirement, one of the most important considerations is the timing, in terms of the potential to save significant interest costs. It is essential therefore that the considerations of timing of borrowing form a key element of the borrowing strategy.

One of the key borrowing objectives is to achieve certainty around interest costs, and there is therefore little appetite to undertake variable rate borrowing. It is unlikely that long term interest rates will fall over the medium term and therefore to reduce the risk of rising interest rates, officers will seek to carry out the external borrowing in the financial year to which the expenditure relates.

It is expected that requirements for long term borrowing will be met from the Government Loans Fund or other potential secure lenders.

(C) DEBT RESCHEDULING

Debt restructuring opportunities will be kept under review. Recent experience has shown that penalties in respect of early redemption of loans outweigh the benefits of re-financing the loans at lower interest rates.

(D) ANNUAL INVESTMENT STRATEGY

The primary purpose of the Annual Investment Strategy is to set out the policies for managing investments giving priority to the security and liquidity of the Council's investments. It also contains the policy on the use of credit ratings and credit ratings agencies, procedures for determining and limiting the use of higher risk investments and the use of external advisors.

The Council's investment priorities are (a) the security of capital; (b) liquidity of its investments, and (c) yield/return on investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

A counterparty list of institutions with which the Council will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating. Under the guidance, investments fall into two separate categories, either specified or non-specified investments.

Specified Investments
Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of six months or less).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency, or with the UK Government or a Local Authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or, if appropriate, a City, District or Borough Council in Northern Ireland.

The following categories of investments may be used under the definition of specified investments:

a. Short term cash deposits
b. Call accounts
c. Certificates of Deposit (with maturity dates not exceeding 6 months)
d. UK Government Gilts
e. Treasury Bills

Credit Rating Criteria
The Council will invest with institutions that have a high credit rating assigned by any of the three credit ratings agencies (Fitch, Moodys and Standard & Poors). To be deemed highly rated the institution must satisfy at least the minimum of the following Standard and Poors (or equivalent) criteria:

- Long term credit rating BBB+
- Short term credit rating A-3

The following organisations are those which will be considered for investments in 2016/17:

Financial Institution	Credit Rating
UK based or Ireland based Institutions	BBB+ / A-3

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

Investment Limits
Council will invest surplus cash balances with a single Financial Institution to a maximum of £2m and this will be allocated in accordance with the Councils investment policies, legislation and regulations.

Non-Specified Investments
Non-specified investments are those investments which do not, by definition, meet the requirements of a specified investment as set out above. They present a higher risk and therefore this Council does not intend to make any Non-Specified investments in 2016/17.

Risk Management of Investment Counterparties
Credit ratings are only the starting point when considering credit risk. The Council has now engaged the services of a professional independent external provider to inform decisions on investments.

Liquidity of Investments
Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. All investments will be short term having a maturity of less than one year.

Reporting Arrangements
As set out in TMP6, the Council will receive an annual report on the strategy to be pursued in the coming year and an annual report after the close of the financial year.

(E) TREASURY MANAGEMENT ADVISORS

External Advisors
The Council has recently availed of the expertise of external advisers regarding the provision of advice in respect of market conditions and credit ratings of financial institutions. Council recognises however that responsibility for the decision to invest with a counterparty, rests with the Council as the principal undertaking the transaction.

Training
Staff training needs in respect of treasury management skills will be kept under review. The Council recognises that investments, as well as wider treasury management issues require a high level of specialist knowledge. The Council will review staff training needs in respect of treasury management skills as part is its employee skills analysis. In addition training will be provided for elected members to enable them to provide effective scrutiny of the strategy and to have the knowledge to make informed decisions.

(F) PRUDENTIAL INDICATORS:

The Local Government Finance Act (Northern Ireland) 2011 requires Council to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In doing so, the Council is required to set and monitor a series of Prudential Indicators, the key objective of which is to ensure that, within a clear framework, the capital investment plans of the Council are affordable, prudent and sustainable.

The Council is required to set and monitor a range of indicators under the following headings: -

- Capital Expenditure
- Affordability
- Financial Prudence
- External Debt
- Treasury Management

These headings are presented in the Council's MRP Policy and prudential indicators.

1. Treasury Management Indicators:

1.1. Has the Council adopted the CIPFA Code of Practice on Treasury Management?

The application of this code only comes into effect when it is agreed by Council. When agreed the Council will have fully complied with the code.

1.2. Upper Limit of Fixed Rate Borrowing;

Indicator	**2016/17**
Fixed interest rate exposure – upper limit *	100%

The Council will only invest when the rates have been predetermined and fixed in advance of the investment i.e. the rates will not be subject to movement during the period of investment.

*These limits can only be breached with the approval of Council

1.3. Upper Limit of Variable Rate Borrowing;

None for 2016/17

1.4. Maturity Structure of Fixed Rate Borrowing;

All fixed rate borrowing.

1.5. Total Principal sums invested for periods longer than 6 months;

The purpose of this indicator is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of sums invested.

The Council would not, through its normal course of investment activities, expect to make investments beyond 12 months.