

# **MIDLOTHIAN COUNCIL**

## **TREASURY MANAGEMENT PRACTICES**

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## **TMP1 Risk Management**

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

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

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

This organisation 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 which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **1.1.1 Policy on the use of credit risk analysis techniques**

The Council uses the Link Group Treasury Solutions creditworthiness service. This utilises credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poors, along with credit watches, outlooks, CDS spreads and country sovereign ratings in a weighted scoring system with an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties for investment.

These colour codes are used by the Council to determine the maximum suggested duration for investment with that counterparty. These are as follows:-

<b>Link Colour Code</b>	<b>Maximum Suggested Duration for Investment</b>
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	2.5 years
Blue	1.25 years***
Orange	1.25 years
Red	7 months

Green	120 days
No colour	Not to be used

- \* Note the yellow colour category is for:- UK Government Debt, or its equivalent, constant NAV Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt
- \*\* Dark Pink for Enhanced MMF's with a credit score of 1.25; Light Pink for Enhanced MMF's with a credit score of 1.5
- \*\*\* Only applies to nationalised or semi-nationalised UK banks
- \*\*\*\* The Green Limit was formerly for 3 months but the Financial Conduct Authority set (in July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the Green Limit has been slightly extended to accommodate this regulatory change

Note that the maximum suggested durations listed above have been extended by 1 year (when compared to the suggested maximum durations provided by Link) for the Yellow, Dark Pink, Light Pink, Purple, Blue and Orange categories, to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. Equally, the maximum suggested duration for the Red category has been extended by a month to 8 months, and the maximum duration for the Green category has been extended by 20 days to 120 days, on the same basis. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Link, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with;
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors;
3. Treasury Management consultants will provide regular updates of changes to all ratings relevant to the council;
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits;
5. Credit ratings for individual counterparties can change at any time. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties;
6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press;
- Market data;
- Information on government support for banks; and
- The credit ratings of that government support.

7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows (current as at time of writing and reflecting those approved in the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators report approved by Council on 15 February 2022): -

**Deposits**

<b>Investment Category</b>	<b>Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max %/£m of total investments</b>	<b>Max. maturity period</b>
Debt Management Agency Deposit Facility	--	Term	No	<b>100%</b>	<b>6 months</b>
Term deposits – local authorities	--	Term	No	<b>100%</b>	<b>5 years</b>
Call accounts – banks and building societies	Green	Instant	No	<b>100%</b>	<b>1 day</b>
Term deposits / Notice Accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Term	No	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use

**Deposits with counterparties currently in receipt of government support / ownership**

<b>Investment Category</b>	<b>Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max %/£m of total investments</b>	<b>Max. maturity period</b>
UK nationalised banks – Call accounts	Blue	Instant	No	<b>100%</b>	<b>1 day</b>
UK nationalised banks – Term Deposits / Notice Accounts	Blue	Term	No	<b>100%</b>	<b>1.25 years</b>
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	<b>100%</b>	<b>1.25 years</b>
Non-UK (high sovereign rated country) nationalised banks – Call accounts	Green	Instant	No	<b>100%</b>	<b>1 day</b>
Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts	Yellow Purple Blue Orange Red Green No Colour	Term	No	<b>100%</b>	<b>Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use</b>
Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	<b>100%</b>	<b>Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use</b>

If forward deposits are made, the forward period plus the deal period equate to the maximum maturity period.

**Collective investment schemes structured as Open Ended Investment Companies (OEICs)**

<b>Investment Category</b>	<b>Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max %/£m of total investments</b>	<b>Max. maturity period</b>
Government Liquidity Funds	AAA	Instant	No	<b>100%</b>	<b>1 day</b>
Money Market Funds CNAV	AAA	Instant	No	<b>100%</b>	<b>1 day</b>
Money Market Funds LVNAV	AAA	Instant	No	<b>100%</b>	<b>1 day</b>
Money Market Funds VNAV	AAA	Instant	No	<b>100%</b>	<b>1 day</b>
Ultra Short Dated Bond Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	<b>100%</b>	<b>1 week</b>
Ultra Short Dated Bond Funds with a credit score of 1.5	AAA	T+1 to T+5	Yes	<b>100%</b>	<b>1 week</b>
Bond Funds	AAA	T+2 or longer	Yes	<b>50%</b>	<b>2 days</b>
Gilt Funds	AAA	T+2 or longer	Yes	<b>50%</b>	<b>2 days</b>

**Securities issued or guaranteed by governments**

<b>Investment Category</b>	<b>* Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max %/£m of total investments</b>	<b>Max. maturity period</b>
Treasury Bills	UK sovereign rating	Sale T+1	Yes	<b>100%</b>	<b>50 years</b>
UK Government Gilts	UK sovereign rating	Sale T+1	Yes	<b>100%</b>	<b>50 years</b>
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	<b>100%</b>	<b>50 years</b>
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	Yes	<b>100%</b>	<b>50 years</b>
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	Yes	<b>100%</b>	<b>50 years</b>

## Securities issued by corporate organisations

<b>Investment Category</b>	<b>* Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Certificates of deposit issued by banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use
Commercial paper other	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	<b>100%</b>	Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use



## Other

<b>Investment Category</b>	<b>Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max %/£m of total investments</b>	<b>Max. maturity period</b>
Local authority mortgage guarantee scheme.	Blue	Term	No	<b>50%</b>	<b>5 years</b>
Loans to Third Parties	n/a	Term	No	<b>£25m</b>	<b>25 years</b>
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	<b>£0.326m</b>	<b>22 years</b>
Midlothian Energy Limited: ESCO	n/a	Term	No	<b>£10.2m</b>	<b>n/a</b>

8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £15 million (£30 million for Lloyds Banking Group and The Royal Bank of Scotland);
- Group limits where a number of institutions are under one ownership – maximum of £15 million per group (£30 million for Lloyds Banking Group and NatWest Group);
- Country limits – a minimum sovereign rating of AA- is required for an institution to be placed on our approved lending list. The list of countries which currently meet this criteria (current as at time of writing and reflecting those approved in the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators report approved by Council on 15 February 2022): -

### **AAA**

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

### **AA+**

- Canada
- Finland
- U.S.A.

### **AA**

- Abu Dhabi (UAE)
- France

## **AA-**

- Belgium
- Hong Kong
- Qatar
- **U.K.**

This list is updated as a minimum annually as part of the Treasury Management and Investment Strategy Prudential Indicators report approved by Council in advance of each financial year

The Council's policy in relation to its environmental, social and governance (ESG) investment considerations are as set out in Appendix 1. This is a developing area, and it is not implied that the Council's ESG policy will currently include ESG scoring or other real-time ESG criteria at an individual deposit level.

### **1.2 Liquidity Risk Management**

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

This 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. This organisation 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.

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 following reasons:-

- To fund the current capital programme;
- To finance future debt maturities;
- To ensure an adequate level of short-term investments to provide liquidity for the organisation.

#### **1.2.1. Amounts of approved minimum cash balances and short-term investments**

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

#### **1.2.2. Details of:**

- a. Standby facilities  
At the end of each financial day, any unexpected surplus funds are transferred to the Council's instant access account with The Royal Bank of Scotland.
- b. Bank overdraft arrangements  
Any overdraft position is chargeable at 5% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's main 3 accounts.
- c. Short-term borrowing facilities  
The Council accesses temporary loans through approved brokers within the United Kingdom. The approved borrowing limit for short term debt is 50% of current external debt. In monetary terms this is £161.4 million at time of writing.
- d. Insurance/guarantee facilities  
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.
- e. Special payments  
Best practice to aid cashflow management and minimise banking charges is that any large payments should be notified to Treasury at least one working day in advance.

### **1.3 Interest Rate Risk Management**

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

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

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

#### **1.3.1 Details of approved interest rate exposure limits**

Upper limit for Fixed Rate exposure is 100% of gross borrowing and investments.

Upper limit for Variable Rate exposure is 30% of gross borrowing and 100% of investments.

### **1.3.2 Policies concerning the use of instruments for interest rate management.**

a. forward dealing

Consideration will be given to dealing from forward periods depending upon market conditions. When forward dealing is more than one week forward then the approval of a Senior Finance Business Partner or the Financial Services Manager is required.

b. LOBOs (borrowing under lender's option/borrower's option)

Use of LOBOs and other similar instruments is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Financial Services Manager or the Chief Officer, Corporate Solutions.

c. Callable Deposits

The Council will use callable deposits as part of its Annual Investment Strategy. The credit criteria and maximum periods are as set out in the Annual Investment Strategy.

### **1.4 Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

#### **1.4.1 Approved criteria for managing changes in exchange rate levels**

The Council from time to time purchases goods from abroad but these items are de minimis in terms of the overall budget and require no formal exchange rate policy.

### **1.5 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.

### **1.6 Refinancing Risk Management**

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

This organisation 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 organisation 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.

#### **1.6.1 Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to Council in the next available Review Report.

#### **1.6.2 Projected Capital Investment Requirements**

The responsible officer will prepare a minimum five year plan for capital expenditure for the Council. The capital plan will be used to prepare the associated debt (loan) charges which would be incorporated into a five year Medium Term Financial Strategy.

In addition, the responsible officer will draw up a capital strategy which will give a longer-term view.

The use of accounting practices to define capital expenditure is contained in Section 12 of the Local Government in Scotland Act 2003.

#### **1.6.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available or estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the four following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this five year period.

The Council will use the definitions provided in the Prudential Code for borrowing (88), capital expenditure (89), capital financing requirement (90), commercial property (91), debt (92), financing costs (93), investments (95), net revenue stream (96), other long term liabilities (97), treasury management (98) and transferred debt (99).

#### **1.6.4 Policy on Borrowing in Advance of Need**

Decisions taken to borrow in advance will form part of the next treasury management report submitted to the appropriate oversight committee. The report will justify the decision to borrow in advance, reflecting the strategy and original assumptions, provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons:-

- to fund the current capital programme;
- to finance future debt maturities, or
- to ensure an adequate level of short-term investments to provide liquidity for the organisation.

As a minimum, justification for any borrowing in advance will include the following:-

- Details of the borrowing in advance undertaken;
- The borrowing within the context of the overall requirement of the authority over the medium term (covering both capital programme needs and the existing debt maturity profile);
- The anticipated timing (date or financial year) as to when those funds are expected to be required;
- The prudential indicator which demonstrates that, in the medium term, borrowing will only be for capital purposes;
- The anticipated rate/s of interest expected to apply if the borrowing is deferred until the time the funds are required;
- The anticipated rate/s of interest expected to be achieved by investing the sums borrowed in advance;
- Details of how interest rates have been forecast and an explanation of the reasonableness of such forecasts should be provided;

- Any third party information or advice used or sought in this regard;
- The risks associated with borrowing in advance and what controls are in place to manage that risk;
- A discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

The business case recommending any borrowing in advance of need will be prepared by the Senior Finance Business Partner for approval by the Financial Services Manager and the Chief Officer, Corporate Solutions.

### **1.6.5 PFI, Partnerships, ALMOs, Joint Ventures and Guarantees**

The Council has entered into the following PFI, DBFM and Joint Venture Arrangements:-

#### Dalkeith Schools Campus

This is a 30-year PPP contract with Dalkeith SPV Ltd for the provision and facilities management of the Campus. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance - free life of five years. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with one contract months' notice.

#### Midlothian Schools Ltd

This is a PPP contract for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a usable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with six months' notice.

#### Newbattle Community Campus

This is a 25-year Not for Profit Distributing Model (NPDM) contract with hubCo for the provision and lifecycle maintenance of the Campus. The facility opened in the financial year 2018/19 on 25th May 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with variable notice periods as defined in the contract.

#### Food Waste Treatment Plant, Millerhill

This is a 20- year Design, Build, Finance and Maintain (DBFM) contract which was jointly procured between Midlothian and the City of Edinburgh Council. At the end of the concession period in 2036 the asset will not revert

back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying the market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

#### Residual Waste Treatment Plant, Millerhill

This is a 25- year DBFM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At 1 April 2020 the contract was in the commissioning phase, with full service commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

#### Midlothian Energy Limited Joint Venture

The Council has entered into a 50:50 joint venture with Vattenfall Heat UK to create Midlothian Energy Limited, a company set up specifically to generate, distribute and supply energy within Midlothian. The carrying value of the Council investment in Midlothian Energy Limited at 31 December 2021 was £1.510 million

### **1.7 Legal and Regulatory Risk Management**

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

This organisation 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 TMP1[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 organisation, particularly with regard to duty of care and fees charged.

This organisation 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.



### 1.7.1 References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

- Part VII Local Government (Scotland) Act 1973;
- Schedule III Local Government (Scotland) Act 1975;
- The Local Government in Scotland Act 2003 Part 7 section 36;
- S.S.I. 2003 No.134 (C.7) The Local Government in Scotland Act 2003 (Commencement No.1) Order 2003;
- S.S.I. 2004 No.28 (C.1) The Local Government in Scotland Act 2003 (Commencement No.2) Order 2004;
- S.S.I. 2004 No.29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004;
- Finance Circular 4/2007 Guidance on proper accounting practices March 2007;
- Finance Circular 5/2010 Investment of Money by Scottish local authorities 1.4.10;
- S.S.I. 2010 No.122 Local Authority Investments (Scotland) Regulations 2010 (these regulations disapply the Trustee Investments Act 1961 (b) to the extent to which it applies to local authority investment of money, except in so far as that Act (or any provision of it) is applied by or under any other enactment);
- S.S.I 2016 No. 123 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016;
- Finance Circular 7/2016 (New Arrangements for Loans Fund Advances and Repayments)
- Requirement to set a balanced budget - Local Government (Scotland) Act 1973 section 108(2)and Local Government Finance Act 1992 section 93(3);
- Local Government (Scotland) Act 1973 section 95 – duty on the CFO to ensure proper financial administration;
- Local Government (Scotland) Act 1975 – power to maintain a loans fund;
- Scottish Office Circular 29/1975 – prescribes annual repayments of principal to the loans fund;
- Housing (Scotland) Act 1987 – requirement to maintain an HRA; schedule 15 sets out income and expenditure to be charged to it;
- Housing (Scotland) Act 1987 section 203(1) - definition of HRA capital expenditure;
- CIPFA Treasury Management Codes of Practice and Guidance Notes 2021;
- CIPFA Prudential Code for Capital Finance in Local Authorities 2021;
- CIPFA Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners 2018

- CIPFA Local Authority Capital Accounting – a reference manual for practitioners;
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996;
- CIPFA Standard of Professional Practice on Treasury Management 2002;
- CIPFA Standard of Professional Practice on Continuous professional Development 2005;
- CIPFA Standard of Professional Practice on Ethics 2006;
- The Good Governance Standard for Public Services 2004;
- LAAP Bulletins;
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice;
- IFRS: Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice
- PWLB circulars on Lending Policy: The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority);
- Financial Conduct Authority's Code of Market Conduct;
- The Council's Standing Orders relating to Contracts;
- The Council's Financial Regulations;
- The Council's Scheme of Delegation.

### **1.7.2 Procedures for Evidencing the Council's Powers and Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government in Scotland Act 2003, section 40

Borrowing: Schedule III Local Government (Scotland) Act 1975 and SSI. 2016 No. 123 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

In addition, it will make available on request the following: -

- a. the scheme of delegation of treasury management activities which is contained in Standing Orders and Financial Regulations.
- b. the authorized signatories database detailing which officers are authorized signatories.

### **Required Information on Counterparties**

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

This is updated annually as part of the Treasury Management and Annual Investment Strategy & Prudential Indicators report.

### **1.7.3 Statement on the Council's Political Risks and Management of Same**

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.7.4 Monitoring Officer**

The monitoring officer is the Legal Services Manager; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.7.5 Chief Financial Officer**

The Chief Financial Officer is the Chief Officer, Corporate Solutions; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

## **1.8 Fraud Operational Risk, including Fraud, Error and Corruption**

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

This organisation 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.

The Council will therefore:-

- a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks;
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are;
- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision;
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.



### **1.8.1. Details of Systems and Procedures to be Followed, Including Online Services**

#### **Authority**

- The Scheme of Delegation sets out the delegation of duties to officers;
- All loans and funds on deposit are negotiated by the responsible officer or authorised persons;
- Loan procedures are defined in the Council's Financial Regulations.

#### **Procedures**

- Electronic banking is undertaken by way of the Royal Bank of Scotland Bankline system.
- CHAPS payments and Faster Payments are made via Bankline;
- Access to the Logotech Public Sector Treasury Management System is limited to authorised officers and administered by the Assistant Accountant Treasury.

#### **Investment and borrowing transactions**

- A detailed register of all loans and investments is maintained in the Logotech PSTM system;
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation;
- Written confirmation is received and checked against the dealer's records for the transaction;
- Any discrepancies are immediately reported to the Senior Finance Business Partner for resolution;
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. The lender's Standard Settlement Instructions are also requested for any new counterparties that the Council have not previously dealt with and checked against the back office confirmation from the broker. Bank details for any repayment of loan funds borrowed through brokers are checked against these SSI's or the existing details held for that counterparty on the Council PSTM system. Any discrepancies are immediately reported to the Senior Finance Business Partner for resolution.

#### **Regularity and security**

- Lending is only made to institutions on the Approved List of Counterparties, which is updated as a minimum annually in the Treasury Management and Annual Investment Strategy & Prudential Indicators report;
- The Logotech PSTM system prompts the Assistant Accountant Treasury that money borrowed or lent is due to be repaid;
- All loans raised and repayments made go directly to and from the bank account of approved counterparties;

- Counterparty limits are set for every institution (see TMP1.1) that the Council invests with;
- Brokers have a list of named officials authorised to agree deals;
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions;
- Payments can only be authorised by an authorised signatory(ies) listed on the internal authorised signatory database;
- The Logotech PSTM system can only be accessed by a password;
- There is adequate insurance cover for employees involved in loans management and accounting.

### **Checks**

- The bank reconciliation is carried out four weekly from the bank statement to the financial ledger;
- The Logotech PSTM system balances are reconciled to the balance sheet ledger codes at the end of each ledger period and at the financial year end;
- Loan charge estimates (debt charges and investment income earnings, net of expenses) are prepared every quarter as part of the quarterly monitoring and outturn reports to Council;
- The Council complies with the requirements of the Code of Practice on Local Authority Accounting and accounts for the loans fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

### **Calculations**

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Logotech PSTM system;
- The Logotech PSTM system automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders;
- Average weighted capital loans fund interest rates and debt management expenses are calculated annually using information from the financial ledger and the Logotech PSTM system;
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the General Fund and the Housing Revenue Account, which is apportioned between the two accounts using the methodology approved by Council.

#### **1.8.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.**

Accommodation is available in other Council Buildings and all computer files are backed up on servers to enable files to be accessed from remote sites.

An electronic diary system is in use should all electronic aids be unavailable.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

### **1.8.3 Insurance Cover Details**

#### Fidelity Insurance

The Council has 'Fidelity Guarantee' Insurance cover with Maven Public Sector which covers fraudulent acts by employees. The cover has a limited liability of £2m any one loss with an excess of £25,000 for each and every loss.

#### Business Interruption

The Council is insured for £2m 'Business Interruption' cover as part of its Property Policy with Zurich Municipal Insurance Company

### **1.9 Market Risk Management**

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation 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.

#### **1.9.1 Details of Approved Procedures and Limits for Controlling Exposure to Investments the Capital Value of which may Fluctuate (Gilts, CDs, Etc.)**

These are controlled through setting limits on funds on deposit instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

## **TMP 2 PERFORMANCE MEASUREMENT**

### **2.1 Evaluation and Review of Treasury Management Decisions**

The Council has a number of approaches to evaluating treasury management decisions: -

- a. reviews carried out by the treasury management team;
- b. reviews with our treasury management consultants;
- c. annual review after the end of the year as reported to full council;
- d. mid-year review reports to full council;
- e. comparative reviews;
- f. strategic, scrutiny and efficiency value for money reviews.

#### **2.1.1 Periodic reviews during the financial year**

The Senior Finance Business Partner reviews treasury activity throughout the year to evaluate actual activity against the Treasury Management and Annual Investment Strategy and cash flow forecasts. This information is discussed with the Financial Services Manager and Chief Officer, Corporate Solutions as part of the quarterly financial monitoring reports to Council, the strategy reviews with treasury consultants, the annual outturn position, the setting of the strategy report to Council, and at other times throughout the year as deemed appropriate.

This will include:-

- a) Total debt (both on-and off balance sheet) including average rate and maturity profile;
- b) Total funds on deposit including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

#### **2.1.2 Reviews with our treasury management consultants**

The treasury management team holds reviews with our consultants at least twice annually to review the performance of the investment and debt portfolios.

#### **2.1.3 Annual Treasury Management Review Report after the end of the financial year**

An Annual Treasury Management Report is submitted to Council each year after the close of the financial year, which reviews the performance of the debt and investment portfolios. This report will be produced within three months after the financial year end and will contain the following: -

- a. total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement;



- b. borrowing strategy for the year compared to actual strategy;
- c. whether or not a decision was made to defer borrowing or to borrow in advance;
- d. outline the level of internal borrowing and whether it has materially changed during the year;
- e. assumptions made about interest rates;
- f. investment strategy for the year compared to actual strategy;
- g. explanations for variance between original borrowing and investment strategies and actual;
- h. debt rescheduling done in the year;
- i. actual borrowing and investment rates available through the year;
- j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives;
- k. the Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together with details of any remedial action taken. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem;
- l. the Report shall include details of any review of long term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy;
- m. compliance with Prudential and Treasury Indicators.

#### **2.1.4 Comparative reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year;
- CIPFA Treasury Management Forum.

## **2.2 Benchmarks and Calculation Methodology:**

### **2.2.1 Debt management**

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

### **2.2.2 Investment.**

The performance of in house investment earnings will be measured against the backward looking compounded SONIA appropriate for the average duration of the portfolio.

The Council also participates in the Investment Benchmarking service offered by Link Treasury Solutions, which allows a comparison of the Council's investment portfolio against other peers both within the Investment Benchmarking group and throughout the UK to be undertaken.

## 2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

### 2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

### 2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender every five years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

If tendering is not considered appropriate a specialist banking company will be appointed to ensure that the terms offered represent value for money.

### 2.3.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers has been established which takes account of both prices and quality of services. The Council currently transacts with counterparties using the following brokers as intermediaries:-

Broker	Main Contact	Contact Number	Address
RP Martin	Norman Clements <a href="mailto:Norman.Clements@Martin-Brokers.com">Norman.Clements@Martin-Brokers.com</a>	0131 257 4450	26 Fredrick Street Edinburgh EH2 2JR
Tullet Prebon	Gary Christopher <a href="mailto:gchristopher@tulletprebon.com">gchristopher@tulletprebon.com</a>	0207 200 7042	155 Bishopgate London EC2M 3TQ
Tradition	Nick Bramley <a href="mailto:Nick.Bramley@tradition.com">Nick.Bramley@tradition.com</a>	0207 422 3566	Beaufort House 15 St Botolph Street London EC3A 7OX
King & Shaxson	Patrick McFann <a href="mailto:Patrick.McFann@kasl.co.uk">Patrick.McFann@kasl.co.uk</a>	0207 929 8529	Candlewick House 120 Cannon Street London EC4N 6AS
ICAP	Anthony Lunn <a href="mailto:Anthony.Lunn@icap.com">Anthony.Lunn@icap.com</a>	0203 933 2288	2 Broadgate London EC2M 7UR

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**2.3.4 Consultants'/advisers' services**

This Council's policy is to appoint full-time professional treasury management consultants.

**2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)**

The Council's policy is not to appoint external investment fund managers.

## **TMP 3 DECISION-MAKING AND ANALYSIS**

### **3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:**

**+**

#### **3.1.1 Records to be kept**

The Treasury section has a computerised system in which all investment and loan transactions are recorded.

The following records will be retained:-

- Daily cash balance forecasts;
- Money market rates obtained by telephone from brokers;
- Dealing slips for all money market transactions;
- Brokers' confirmations for investment and temporary borrowing transactions;
- Confirmations from borrowing and lending institutions where deals are done directly;
- PWLB loan confirmations;
- PWLB debt portfolio schedules;
- Certificates for market loans, local bonds and other loans.

#### **3.1.2 Processes to be pursued**

- Cash flow analysis;
- Debt and investment maturity analysis;
- Ledger reconciliation;
- Review of opportunities for debt restructuring;
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money);
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

#### **3.1.3 Issues to be addressed.**

##### **3.1.3.1. In respect of every treasury management decision made the Council will:**

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed;
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping;

- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

**3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets, to ensure that its capital plans and investments are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail over the period of the Medium Term Financial Strategy. Evaluation will also consider a longer period to ensure that plans remain affordable, proportionate, prudent and sustainable in the longer term;
- b) not borrow to invest primarily for financial return;
- c) not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so;
- d) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council;
- e) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
- f) undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt. The Council does not have any investments in Commercial Debt therefore this is not applicable;
- g) evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- h) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- i) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding;
- j) ensure that treasury management decisions are made in accordance with good professional practice.

**3.1.3.3 In respect of investment decisions, the Council will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

- c) Ensure that any long-term treasury investment is supported by a business case.

## **TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

### **4.1 Approved Activities of the Treasury Management Operation**

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

### **4.2 Approved Instruments for Investments**

Refer to the Treasury Management and Investment Strategy & Prudential Indicators report.

#### **4.2.1 Implementation of MIFID II requirements**

Since 3 January 2018, UK public sector bodies have been defaulted to “retail” status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to “professional” status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities are not required to opt up to professional status when trading with UK banks in fixed term deposits. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status.

## SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

### Money Market Funds

Aberdeen MMF (formerly Standard Life MMF)  
Federated MMF

### Other Counterparties/Companies

King & Shaxson  
Tullet Prebon ICAP  
Tradition  
RP Martin  
Link Treasury Solutions

### **4.3 Approved Techniques**

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument

### **4.4 Approved Methods and Sources of Raising Capital Finance**

Finance will only be raised in accordance with the Local Government in Scotland Act 2003 and the 2016 Local Authority Capital Finance & Accounting Regs and within this the Council has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●



## **Other Methods of Financing**

- Government and Capital Grants
- Lottery monies
- PFI/PPP
- Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

### **4.5 Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

### **4.6 Borrowing Limits**

See the Treasury Management Strategy

### **4.7 Non-treasury management investments**

Appendix 3 lists the Non-Treasury Management Investments that the Council holds – these are all classified under the Treasury Management Code as Service Investments.

## **TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements**

### **5.1 Allocation of responsibilities**

#### **(i) Full Council**

- receiving and reviewing reports on treasury management policies and activities;
- approval of annual strategy;
- budget consideration and approval;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approval of amendments to the organisation's adopted clauses, treasury management policy statement.

#### **(ii) Audit Committee**

- In accordance with the Prudential Code, Audit Committee shall scrutinise all Treasury Management Reports (Strategy, Mid-Year and Outturn) and provide recommendations for revision in the report for presentation to Council.

#### **(iii) Chief Officer, Corporate Solutions**

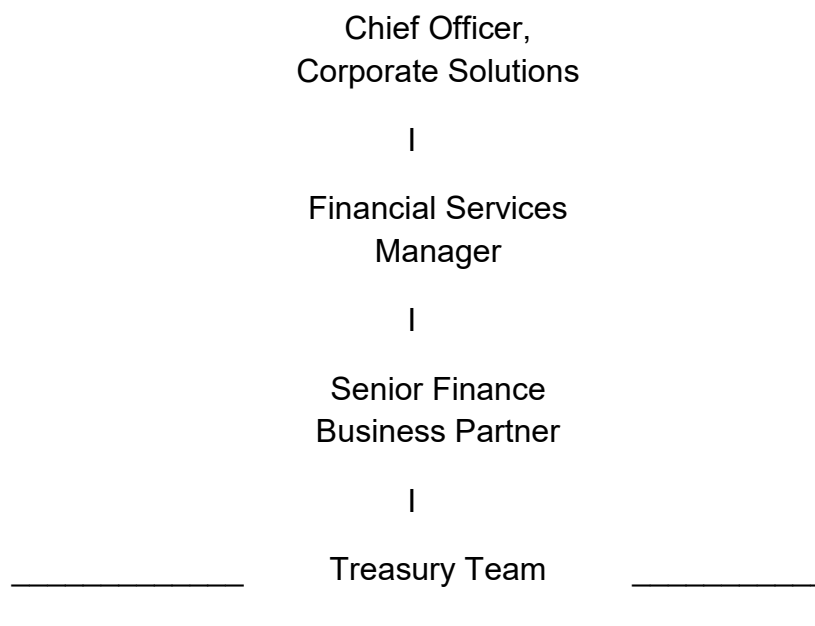
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment;
- approval of treasury management practices and amendments thereto.

### **5.2 Principles and Practices Concerning Segregation of Duties**

5.2.1 The following duties must be undertaken by separate officers: -

Dealing	Setting of parameters of borrowing and negotiation/authorisation of deal.  Receipt of brokers confirmation note and diarisation of loan receipt against cashflow forecast.  Bank/journal posting and bank reconciliation.
Authorisation & repayment of deal	Entry onto system.  Approval and payment.

### 5.3 Treasury Management Organisation Chart



### 5.4 Statement of the treasury management duties/responsibilities of each treasury post

#### 5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Officer, Corporate Solutions. This person will carry out the following duties: -

- a) recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- b) submitting regular treasury management policy reports;
- c) submitting budgets and budget variations;
- d) receiving and reviewing management information reports;
- e) reviewing the performance of the treasury management function;
- f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- g) ensuring the adequacy of internal audit, and liaising with external audit;
- h) recommending the appointment of external service providers;
- i) The responsible officer 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;
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Financial Services Manager, Senior Finance Business Partner, the Assistant Accountant, Treasury or the

Trainee Accountants must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave or sickness;

- k) The responsible officer 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;
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer 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;
- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investments Products Code) for principals and broking firms in the wholesale markets.

#### **5.4.2. Senior Finance Business Partner**

The responsibilities of this post will be: -

- a) execution of transactions;
- b) adherence to agreed policies and practices on a day-to-day basis;
- c) maintaining relationships with counterparties and external service providers;
- d) supervising treasury management staff;
- e) monitoring performance on a day-to-day basis;
- f) submitting management information reports to the responsible officer;
- g) identifying and recommending opportunities for improved practices;
- h) Preparing business case on borrowing in advance and/or fixed term deposits for approval by Financial Services Manager and Chief Officer, Corporate Solutions.

The Treasury Team additionally includes the following persons:-

#### **Assistant Accountant, Treasury**

The responsibilities of this post include the day to day operational tasks to prepare the daily treasury bank position including forecast movements during the day, preparation of Faster and CHAPS payments, transmission of BACS files, completion of end of day banking, and reconciliation of all treasury / loans fund ledger codes.

#### **5.4.3. Knowledge & Skills Schedule**

See TMP10 and Appendix 2.

#### **5.4.4. The Head of the Paid Service – the Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented;
- b) Ensuring that the responsible officer reports regularly to the Council on treasury policy, activity and performance.

#### **5.4.5. The Monitoring Officer – the Legal Services Manager**

The responsibilities of this post will be: -

- a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law;
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice;
- c) Giving advice to the responsible officer when advice is sought.

#### **5.4.6. Internal Audit**

The responsibilities of Internal Audit will be: -

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

### **5.5 Absence Cover Arrangements**

In the absence of the Senior Finance Business Partner, the Financial Services Manager will either fulfil the Senior Finance Business Partners' duties or delegate these to another Senior Finance Business Partner.

In the Absence of the Assistant Accountant, Treasury the Trainee Accountants will fulfil that role.

### **5.6 Dealing Limits**

There are no dealing limits for individual posts.

#### **5.7 List of Approved Brokers**

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 2.3.3.

#### **5.8 Policy on Brokers' Services**

It is this Council's policy to rotate business between brokers.

#### **5.9 Policy on Taping of Conversations**

It is not this Council's policy to tape brokers conversations.

#### **5.10 Direct Dealing Practices**

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows:-

- Business Reserve Accounts;
- Call Accounts;
- Money Market Funds.

#### **5.11 Settlement Transmission Procedures**

Payments will be made through the Bankline system to be completed by 2.00pm on the same day (CHAPS payments and Faster Payments).

#### **5.12 Documentation Requirements**

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

#### **5.13 Arrangements Concerning the Management of Third-Party Funds.**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

## **TMP 6 Reporting Requirements and Management Information Arrangements**

### **6.1 Annual programme of reporting**

- a) Annual reporting requirements before the start of the year:-
  - a) review of the organisation's approved clauses, treasury management policy statement and practices;
  - b) strategy report on proposed treasury management activities for the year comprising of the Treasury Management and Annual Investment Strategy & Prudential Indicators.
  - c) Capital strategy to cover the following:-
    - o Give a long-term view of the capital programme and treasury management implications therefor beyond the five year time horizon for detailed planning;
    - o An overview of the treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, proportionality, between both types of investments;
    - o Schedule of non-treasury investments.
- b) Mid-year review (or more frequently if necessary);
- c) Annual review report after the end of the year;
- d) Quarterly reporting of Treasury Management and Prudential Indicators with the existing suite of financial monitoring reports.

### **6.2 Annual Treasury Management and Annual Investment Strategy & Prudential Indicators report**

1. The Treasury Management and Annual Investment Strategy & Prudential Indicators report sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to Audit Committee for scrutiny and then presented to the full Council for approval before the commencement of each financial year;
2. The formulation of the Treasury Management and Annual Investment Strategy & Prudential Indicators report involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise;
3. The Treasury Management and Annual Investment Strategy & Prudential Indicators report is concerned with the following elements:
  - a) Prudential and Treasury Indicators;
  - b) current Treasury portfolio position;
  - c) borrowing requirement;
  - d) prospects for interest rates
  - e) borrowing strategy;
  - f) policy on borrowing in advance of need;
  - g) debt rescheduling;
  - h) investment strategy;
  - i) creditworthiness policy;
  - j) policy on the use of external service providers;
  - k) any extraordinary treasury issues.

4. The Treasury Management and Annual Investment Strategy & Prudential Indicators report will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios;
5. Whether the CIPFA Treasury Management Code and the CIPFA Prudential Code have been adopted in full, or if not, provide an explanation;
6. The Council's risk appetite in respect of security, liquidity and optimum performance;
7. The definition of high credit worthiness;
8. Which instruments the Council will use (permitted investments) separately identified as relating to Common Good and other;
9. Limits (by sum of money or percentage of the local authority's total investments) for each permitted investment. Alternatively an investment may be 'unlimited';
10. The objectives of each type of investment;
11. The different types of risks that each permitted investment is exposed to;
12. The controls in place for limiting those risks;
13. Explanations for an unlimited categorisation;
14. Whether they will be used by the in house team, external managers or both (if applicable);
15. The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list;
16. Which credit rating agencies the Council will use;
17. How the Council will deal with changes in ratings, rating watches and rating outlooks;
18. Limits of amount and duration for individual counterparties and group limits;
19. Country limits;
20. Maximum value and maximum periods for which funds may be prudently invested;
21. Levels of cash balances and investments over the same time period as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels;
22. Interest rate outlook;
23. Budget for investment earnings;
24. A review of the holding of longer term investments;
25. Details of how policies and practices will be scrutinised before being accepted and how they will be monitored and changed;
26. Use of a cash fund manager (if applicable);
27. Policy on the use of external service providers;
28. Details as to where policies referred to in the Strategy may be obtained.
29. Treasury limits which are set through Prudential and Treasury Indicators.

## **6.5 Policy on Prudential & Treasury Indicators**

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council



## **6.5 Mid year review**

A mid-year review report will be presented to Council outlining treasury management activities and strategy. This review will consider the following: -

- a) activities undertaken;
- b) variations (if any) from agreed policies/practices;
- c) interim performance report;
- d) regular monitoring;
- e) monitoring of treasury management indicators for local authorities;
- f) Projected performance for the second half of the year;
- g) Updated prudential indicators.

## **6.6 Annual Review Report on Treasury Management Activity**

An annual report will be presented to the full Council at the earliest practicable meeting after the end of the financial year. This report will include the following: -

- a) Transactions executed and their revenue effects;
- b) Report on risk implications of decisions taken and transactions executed;
- c) Performance report;
- d) Report on compliance with CIPFA Code recommendations, approved policies and practices, the member approved treasury management strategy and on statutory/regulatory requirements.

## **6.7 Quarterly Review**

The quarterly review will comprise the monitoring of the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring reports.

## **6.7 Management Information Reports**

Management information reports are prepared weekly and detail the current level of debt and investments held by the Council (Prudential Indicators Report). Quarterly loan charges projections are prepared by the Senior Finance Business Partner for the Financial Services Manager and Chief Officer, Corporate Solutions. These projections provide measurements of performance against budget including the projected level of loan charges/investment income. They will also highlight any change to the original strategy along with an explanation of variances, and outline any non-compliance with Prudential limits or other treasury management limits. Annual loan charges projections are also provided to the Financial Services Manager and Chief Officer, Corporate Solutions to ensure budget planning for the 5 year budget cycle.

## **6.8 Publication of Treasury Management Reports**

The reports outlined in Section 6.1 above are published on the Council's website.

## **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

### **7.1 Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

### **7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators**

The Chief Officer, Corporate Solutions will prepare a five year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following four years. This will bring together all the costs involved in running the function, together with associated income. The Financial Services Manager will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

### **7.3 List of Information Requirements of External Auditors**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records;
- Maturity analysis of loans outstanding;
- Certificates for new long term loans taken out in the year;
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type;
- Calculation of loans fund interest and debt management expenses;
- Details of interest rates applied to internal investments;
- Calculation of interest on working balances;
- Interest accrual calculation ;
- Principal and interest charges reports from the Logotech PSTM system;
- Analysis of any deferred charges;
- Calculation of loans fund creditors and debtors;
- Annual Treasury Report
- Treasury Management and Annual Investment Strategy & Prudential Indicators report;
- Review of observance of limits set by Prudential and Treasury Indicators.

### **7.4 Quarterly Budget Monitoring Report**

Quarterly Budget Monitoring reports go to the full Council. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

## **TMP 8 Cash and Cash Flow Management**

### **8.1 Arrangements for Preparing and Submitting Cash Flow Statements**

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

### **8.2 Bank Statements Procedures**

The Council receives a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A formal bank reconciliation is undertaken on a four weekly basis by the Financial Services team.

### **8.3 Payment Scheduling and Agreed Terms of Trade With Creditors**

Our policy is to pay creditors as soon as possible but not later than 30 days after receipt of the invoice and this effectively schedules the payments.

### **8.4 Procedures for Banking of Funds**

All money received by an officer on behalf of the Council will without unreasonable delay be deposited in the Council's banking accounts. The cashiers will notify the Treasury Team each morning of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

### **8.5 Practices Concerning Prepayments to Obtain Benefits**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

## **TMP 9 Money Laundering**

### **9.1 Proceeds of Crime Act 2002**

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

### **9.2 The Terrorism Act 2000**

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

### **9.3 The Money Laundering Regulations 2012, 2015 and 2017**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following:-

- Identify and assess the risks of money laundering and terrorist financing;
- Have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through risk assessments;
- appoint a nominated officer;
- implement internal reporting procedures;

- train relevant staff in the subject;
- establish internal procedures with respect to money laundering;
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

#### **9.4 Local authorities**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is the Chief Officer, Corporate Solutions.
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Chief Officer, Corporate Solutions and it shall be a requirement that all services and departments implement this corporate policy and procedures.

#### **9.5 Procedures for Establishing Identity / Authenticity Of Lenders**

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

#### **9.6 Methodologies for Identifying Deposit Takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk)).

All transactions will be carried out by CHAPS for making deposits or repaying loans.

## **TMP 10 Training and Qualifications**

This organisation 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 responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that Elected Council and Audit Committee 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, including a knowledge and skills schedule, are detailed in Appendix 2 to this document.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Chief Officer, Corporate Solutions, the Financial Services Manager and the Senior Finance Business Partner will review and identify the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Senior Finance Business Partner to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

### **10.1 Details of Approved Training Courses**

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

### **10.2 Records of Training Received by Treasury Staff**

The Financial Services Manager will maintain records on all staff and the training they receive.

### **10.3 Experience and Approved Qualifications for Treasury Staff**

See Appendix 2.

### **10.4 Record of Secondment of Senior Management**

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

#### **10.5 Statement of Professional Practice (SOPP)**

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained;
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

#### **10.6 Member training records**

Records will be kept of all training in treasury management provided to members.

#### **10.7 Members charged with governance**

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.



## **TMP 11 Use of External Service Providers**

### **11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers**

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press;
- Market data;
- Information on government support for banks;
- The credit ratings of that government support.

#### **11.1.1 Banking Services**

- a) Name of supplier of service is The Royal Bank of Scotland.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA;
- c) The branch address is:  
63 High Street Dalkeith EH22 1JA  
Tel :- 0131 523 3505 – David Rennie, Relationship Director
- d) Cost of service is variable depending on schedule of tariffs and volumes but is currently estimated to cost around £20,000 per annum;
- e) Payments due quarterly;

#### **11.1.2 Money-Broking Services**

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Senior Finance Business Partner every year to see if any should be taken off the approved list and replaced by another choice and

will make appropriate recommendations to change the approved brokers list to the Financial Services Manager.

### **11.1.3 Consultants'/Advisers' Services**

#### **Treasury Consultancy Services**

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the Financial Services Manager every year to check whether performance has met expectations.

- a) Name of supplier of service is Capita Asset Services (Treasury Solutions), 40 Duke's Place, London EC3A 7NH. Tel: 0871 664 6800
- b) Regulatory status: investment adviser authorised by the FSA;
- c) Cost of service is £19,450.00 per year;
- d) Payments due on 1 January each year.

Other Consultancy services may be employed on short term contracts as and when required.

### **11.1.4 Credit Rating Agency**

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

## **TMP 12 Corporate Governance**

### **12.1.1 List of Documents to be Made Available for Public Inspection**

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions;
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code;
- c. The following documents are available for public inspection: -

Treasury Management Policy Statement;

Annual Treasury Management and Investment Strategy & Prudential Indicators report;

Annual Treasury Management Outturn Report;

Treasury Management monitoring reports (e.g. half yearly);

Annual accounts and financial instruments disclosure notes;

Annual budget;

5 Year General Services Capital Plan & 15 year HRA Capital Plan;

Capital Strategy

Minutes of Council / Cabinet / committee meetings

Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

## **Appendix 1: Environmental, Social & Governance Risk Management**

This Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

*"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*

*At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*

*In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*

*In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*

*With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness."*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

## **Appendix 2: Knowledge & Skills Schedule**

This appendix details the knowledge, experience and qualification requirements for all staff and elected members involved in Treasury Management.

It also details the actual treasury management qualifications and experience of these individuals.

One of the qualifications for upgrading to professional status under MIFID II is at least 1yr experience in professional position in financial markets which requires knowledge of transactions or services envisaged. There is no guidance on how to interpret and apply this requirement – it could therefore mean that there must be a minimum of one senior person in authority in the treasury management function who has such qualifying experience and then all staff acting under that delegated authority are covered.

The Scottish Treasury Management Toolkit – Developed in partnership with CIPFA – a series of new online learning modules developed to assist Officers and Elected Members to have a minimum level of knowledge and understanding of Treasury Practices. These will be made available in early 2023.

CIPFA have recently published a document covering Effective Scrutiny of Treasury Management which is a self-assessment tool to support the development of effective scrutiny. There are several ways in which it can be used, as noted in the CIPFA publication.

## Audit Committee / Elected Members

### Key Knowledge and skills required:

- Effective scrutiny of all Treasury Management reports (Strategy, Mid-Year and Outturn)
- Provision of recommendations to Council of revisions to Treasury Management reports;

### Recording of Training & Development

- 17/02/2021: Elected Member Briefing on Treasury Management
- Completion of CIPFA Self-Assessment toolkit: Effective Scrutiny of Treasury Management

## Chief Officer, Corporate Solutions

### Key Knowledge and skills required:

- Recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Review of management information reports;
- Reviewing the performance of the treasury management function;
- Ensure 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 responsible officer 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 responsible officer may delegate his power to borrow and invest to members of his staff. The Financial Services Manager, Senior Finance Business Partner, the Assistant Accountant, Treasury or the Trainee Accountants must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave or sickness;
- The responsible officer 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 responsible officer 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 responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investments Products Code) for principals and broking firms in the wholesale marketsApproval of the division of responsibilities;
- Approving the selection of external service providers and agreeing terms of appointment;
- Approval of treasury management practices and amendments thereto.
- Full member of accountancy body (CIPFA/ACCA/CIMA)

### Recording of Training & Development

- 12 years experience in leading Treasury Management team
- 05/10/2022: Treasury Strategy Meeting ([Link](#))
- 19/01/2022: Treasury Strategy Meeting ([Link](#))
- 11/01/2022: Scottish Treasury Management Workshop Webinar ([Link](#))
- 26/10/2021: Treasury Strategy Meeting ([Link](#))



- 17/02/2021: Elected Member Briefing on Treasury Management
- Various: Directors of Finance Meetings

## Financial Services Manager

### Key Knowledge and skills required:

- Development of strategic financial planning for the Council's capital and revenue budgets including loan charges
- Management of the Council's Treasury Management Activities (loan portfolio of £320 million and investment portfolio of £150 million)
- Developed understanding of strategic and operational Treasury Management issues and its importance in the Council
- Understanding of the Council's borrowing requirements arising from its current capital plans, its existing debt portfolio and future capital strategies
- Full member of accountancy body (CIPFA/ACCA/CIMA)

### Recording of Training & Development

- 12 years experience in managing the provision of Treasury Management activities
- 05/10/2022: Treasury Strategy Meeting ([Link](#))
- 19/01/2022: Treasury Strategy Meeting ([Link](#))
- 26/10/2021: Treasury Strategy Meeting ([Link](#))
- 17/02/2021: Elected Member Briefing on Treasury Management
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane

## Senior Finance Business Partner

### Key Knowledge and skills required:

- Developed understanding of strategic and operational Treasury Management issues and its importance in the Council
- Management of the Council's loan and investment portfolios
- Understanding of the Council's borrowing requirements arising from its current capital plans, its existing debt portfolio and future capital strategies
- Knowledge of available loan and deposit options available to the Council and ability to carry out detailed financial appraisal / business case to recommend preferred options for borrowing and deposits to senior management
- Detailed understanding of execution of loan and deposit transactions and the relative risks and benefits of each to the Council
- Knowledge of operational systems used by Council for Treasury Management and payment purposed (Logotech PSTM Treasury Management recording system; PT-X transmission of BACS files; Integra for financial accounting & internal control)
- Detailed knowledge of how to deal/transact with brokers/banks and placement of deals
- Lead Treasury Management Strategy meetings with External Advisors and Senior Management
- At least 1 year experience in professional position in financial markets which requires knowledge of transactions or services envisaged (in accordance with MIFID II & Code requirements)
- Attendance at Treasury Management Online Seminars & Training Workshops
- Attendance at bi-annual Treasury Management Forum
- Supervision of Treasury Management staff;
- Completion of available Scottish Treasury Management Forum Toolkit Modules
- Full member of accountancy body (CIPFA/ACCA/CIMA)

### Recording of Training & Development

- 12 years experience in leading Treasury Management team
- 06/10/2022: Scottish Strategic Treasury Issues Webinar (Link)
- 05/10/2022: Treasury Strategy Meeting (Link)
- 15/06/2022: Investment Benchmarking Meeting East of Scotland (Link)
- 01/06/2022: CIPFA Scottish Treasury Management Forum
- 28/03/2022: Scottish Strategic Treasury Issues Webinar (Link)

- 23/02/2022: RBS bank review meeting
- 19/01/2022: Treasury Strategy Meeting (Link)
- 11/01/2022: Scottish Treasury Management Workshop Webinar (Link)
- 23/11/2021: Investment Benchmarking Meeting East of Scotland (Link)
- 26/10/2021: Treasury Strategy Meeting (Link)
- 20/10/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 07/07/2021: Investment Benchmarking Meeting East of Scotland (Link)
- 14/05/2021: CIPFA Scottish Treasury Management Forum AGM
- 23/03/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 17/02/2021: Elected Member Briefing on Treasury Management
- XX/XX/XXXX: Logotech Workshop
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane
- Various: Scottish Treasury Management Forum Executive Committee
- Full member of accountancy body (CIPFA) since 2008

## Assistant Accountant, Treasury

### Key Knowledge and skills:

- Developed understanding of all operational aspects of Treasury Management
- Knowledge of differing types of loans and deposits available to the Council
- Experience of execution of loan and deposit transactions
- Excellent organisational skills
- Knowledge of Logotech PSTM Treasury Management recording system
- Knowledge of PT-X and transmission of BACS files from start to finish
- Knowledge of Integra financial accounting system and internal control arrangements for making payments
- Knowledge of how to deal/transact with brokers/banks and placement of deals.
- Attendance at Treasury Management Strategy meetings with External Advisors and Senior Management
- Attendance at Treasury Management Online Seminars & Training Workshops
- Attendance at bi-annual Treasury Management Forum
- Ongoing Logotech workshops with updates on software
- Training in the use of PT-X and bank software
- Completion of available Scottish Treasury Management Forum Toolkit Modules

### Recording of Training & Development

- 15 years experience in leading Treasury Management operational activities
- 06/10/2022: Scottish Strategic Treasury Issues Webinar ([Link](#))
- 05/10/2022: Treasury Strategy Meeting ([Link](#))
- 28/03/2022: Scottish Strategic Treasury Issues Webinar ([Link](#))
- 23/02/2022: RBS bank review meeting
- 19/01/2022: Treasury Strategy Meeting ([Link](#))
- 11/01/2022: Scottish Treasury Management Workshop Webinar ([Link](#))
- 26/10/2021: Treasury Strategy Meeting ([Link](#))
- 20/10/2021: Scottish Strategic Treasury Issues Webinar ([Link](#))
- 23/03/2021: Scottish Strategic Treasury Issues Webinar ([Link](#))
- 17/02/2021: Elected Member Briefing on Treasury Management
- 29/10/2019: Logotech Workshop
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane

### **Appendix 3: Investment Management Practices for Non-Treasury Investments**

This organisation recognises that investments taken for non-treasury management purposes requires careful investment management. Such activity includes loans supporting service outcomes and investments in subsidiaries.

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

This organisation will ensure that all the organisation's investments are covered in the Treasury Management and Annual Investment Strategy, or Capital Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities, which are predominantly service lead, may differ from that for treasury management.

The Council has the following investments for non-Treasury Management purposes. These are classified as Investments for Service Purposes (or Service Investments) which are taken or held primarily and directly for the delivery of public services (including housing, regeneration & local infrastructure) or in support of joint working with others to deliver such services.

#### **Equity Shareholding in Lothian Buses**

Midlothian Council holds a 5.5% shareholding in Lothian Buses plc, a company incorporated in January 1986 under the terms of the Transport Act 1985 to operate buses in the City of Edinburgh and its surrounding area.

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of equity attributable to equity holders, this equates to £4.642 million in line with the published results for the year ended 31 December 2021.

Excluding 2020 and 2021, there has been no default on the dividend payable to the Council over the period the Council has held this investment.

#### **Subordinated Debt Subscription to the SPV set up to deliver the Newbattle Centre project**

This involved the Council subscribing £0.333 million of subordinated debt to the SPV that was set up to deliver the Newbattle Centre project.

The length of the investment is 25 years (DBFM contract period) with the subscription made at operation commencement of the contract.

The repayment profile will comprise 81% of the principal remaining invested until the final two years of the contract.

The principal on this investment will be repaid fully over the 25-year project life, with the majority (81%) remaining invested until the final two years of the contract. Interest is paid biannually at a 10.50% coupon based on the average principal outstanding over the relevant 6-month period.

Whilst the investment is sellable in the secondary market, the valuation basis for the Council's shareholding (current nominal value of loan stock £0.324 million) is calculated based on the subscription value less repayments of principal, as there is no equivalent market data to estimate resale value.

Whilst there are no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis.

The Treasury risk associated with this type of investment will be mitigated through an annual assessment as a minimum to review the holding of such debt, and whether the exposure to risk arising from the investment has changed over the period. The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such, they are well placed to influence and ensure the successful completion of the project's term.

### **Midlothian Energy Limited ESCO**

Midlothian Energy Limited (MEL) is a Joint Venture between Midlothian Council and Vattenfall to deliver energy supply to Shawfair using heat supplied from the Millerhill Energy from Waste plant and related projects. The carrying value of this investment represents the funds invested in 2022, totalling £1.510 million.

The Council is in a joint venture partnership and therefore party to the governance and controls within the project structure. As such the Council is well placed to influence and ensure the successful completion of the project's term.

Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance. The Council will continue to review the performance of the company on an annual basis.

