

# **Treasury Management Policy and Practices 2020/21**

## Contents

|   | <b>Page</b>    |
|---|----------------|
| <b>Treasury Management Policy Statement.....</b>  | <b>.....3</b>  |
| <b>Treasury Management Practices.....</b>   |                |
| <b>TMP 1</b> Treasury risk management   | <b>.....4</b>  |
| <b>TMP 2</b> Performance measurement  | <b>.....14</b> |
| <b>TMP 3</b> Decision–making and analysis   | <b>.....16</b> |
| <b>TMP 4</b> Approved instruments, methods and techniques   | <b>.....18</b> |
| <b>TMP 5</b> Organisation, clarity and segregation of responsibilities,<br>and dealing arrangements | <b>.....20</b> |
| <b>TMP 6</b> Reporting requirements and management information<br>arrangements                      | <b>.....24</b> |
| <b>TMP 7</b> Budgeting, accounting and audit arrangements   | <b>.....27</b> |
| <b>TMP 8</b> Cash and cash flow management  | <b>.....28</b> |
| <b>TMP 9</b> Money laundering   | <b>.....29</b> |
| <b>TMP 10</b> Training and qualifications   | <b>.....31</b> |
| <b>TMP 11</b> Use of external service providers   | <b>.....32</b> |
| <b>TMP 12</b> Corporate governance  | <b>.....34</b> |
| <b>TMP13</b> Investment management practices for non-treasury<br>investments                        | <b>.....35</b> |

# The Treasury Management Policy Statement

## The treasury management policy statement

TfN defines its treasury management activities as:

1. The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. TfN acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

TfN recognises that it does not have the vires to access credit in any form, and therefore that its treasury management activity is limited to its cash flow, banking, and investing activity.

## Clauses to be formally adopted

1. TfN will create and maintain, as the cornerstones for effective treasury management:
  - a Treasury Management Policy Statement (TMSS), stating the policies, objectives and approach to risk management of its treasury management activities
  - suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the CIPFA Treasury Management Code (the Code), subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.
2. TfN will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. TfN delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Finance Director, and for the execution and administration of treasury management decisions to the Finance Director, who will act in accordance with the organisation's policy statement and TMPs
4. This organisation nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

# TMP 1 RISK MANAGEMENT

The responsible officer (in the case of Transport for the North, The Finance Director) 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. 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, 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 whom 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. Policy on the use of credit risk analysis techniques

- 1.1.1. TfN will use credit criteria in order to select creditworthy counterparties for placing investments with.
- 1.1.2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
- 1.1.3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to TfN.
- 1.1.4. 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. This organisation will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -
  - Yellow 3 months
  - Purple 3 months
  - Blue 3 months (only applies to nationalised or semi nationalised UK Banks)
  - Orange 3 months
  - Red 3 months
  - Green 1 months
  - No Colour not to be used

In addition, a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Link Asset Services "Treasury Solutions Credit Policy Guide December 2015" for a full explanation.

- 1.1.5. Credit ratings for individual counterparties can change at any time. The Finance Director is responsible for applying approved credit rating criteria for selecting approved counterparties. 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.
- 1.1.6. 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
- 1.1.7. Maximum maturity periods and amounts to be placed in different types of investment instrument are shown below. At present the maximum investment period for Specified Investments is 3 months. That limit reflects TfN's funding arrangements.
- 1.1.8. 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 - £5m, with a sole caveat for necessary investments with TfN's own bank.
  - Country limits – a minimum sovereign rating of AA- is required for an institution to be placed on our approved lending list. However, UK banks will be considered regardless of the UK's sovereign rating at the time of investment.
- 1.1.9. Investments will not be made with counterparties that do not have a credit rating in their own right.
- 1.1.10. The definition of 'high credit quality' in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. TfN will not use non-specified investments.

## **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 organisation will ensure it has adequate cash resources to enable it to discharge its affairs and mitigate insolvency risk. TfN will work with the Department for Transport as its principal funder to ensure that it is able to draw down grant for budgeted costs in a timely manner and will maintain a reserve strategy designed to enable the organisation to react to financial shock.

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

TfN's current accounts with its own bank are interest bearing. TfN will aim to hold not less than £1m at any time with its own bank in same day access accounts and will aim to hold not more than £5m to limit its exposure risk. TfN recognises that there will be occasions when both aspirations may not be able to be met due to unforeseen cash flow adjustments. In those circumstances TfN will redress the situation as soon as practicably possible.

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

- a. Standby facilities  
TfN's investment strategy is designed to ensure it has ready access to sufficient cash balances to both manage its day-to-day business and manage financial shock. TfN will retain at least £1m in liquid cash with its own bank at any point and ensure that investments do not exceed 3 months.
- b. Bank overdraft arrangements  
TfN has no vires to access credit so has no overdraft facility.
- c. Short-term borrowing facilities  
TfN has no vires to access credit, so no borrowing facilities.
- d. Insurance/guarantee facilities  
Whilst retaining general insurance provisions, TfN does not specifically insure financial transactions nor enter into factoring arrangements. TfN's operations are underpinned by an effective guarantee from the Department for Transport to support an orderly winddown of the organisation and its commitments in the event of governmental funding being withdrawn.

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

This represents 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.

For TfN, this risk is relatively negligible as it has no debt and expenditure that is sensitive to fluctuations in interest rates. Instead, interest rate fluctuations only impact upon the rate of interest generated on short-term deposits held to manage cash flow.

To limit this exposure, TfN treats deposit investment income as ancillary un-budgeted income. Accordingly, fluctuations in interest rates and cash balances does not impact upon TfN's ability to resource its expenditure plans.

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

a. forward dealing

Consideration will be given to dealing from forward periods dependent upon market conditions.

b. callable deposits

TfN may use callable deposits as part as of its Annual Investment Strategy (AIS).

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

This represents 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.

TfN does not have expenditure denominated in foreign currencies and does not expect to do so into the future.

### **1.5 Refinancing Risk Management**

Without access to credit TfN is not exposed to risk around the refinancing of maturing debt.

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

Without access to credit, TfN does not have risk associated with the maturity profiles of a debt portfolio.

#### **1.5.2. Projected Capital Investment Requirements**

The Financial Controller will prepare a three-year plan for capital expenditure for TfN. Without access to credit, these expenditure plans will be fully funded from either discrete capital or revenue grant.

The definition of capital expenditure used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

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

Without access to credit, the long-term affordability of TfN's capital expenditure plans is predicated on the receipt of government grants. Capital expenditure will not be undertaken without access to grant funding.

### **1.6 Legal and Regulatory Risk Management**

This represents 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 affect 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.

#### **1.6.1. References to Relevant Statutes and Regulations**

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

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if TfN is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013

- S.I. 2015 no. 234 Accounts and Audit Regulations 2015

#### **Guidance and codes of practice**

- CLG Revised Guidance on Investments 1.4.2010
- CLG guidance on minimum revenue provision – Feb 2012
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners 2014 Edition
- 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
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non-Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
- TfN's Standing Orders relating to Contracts
- TfN's Financial Regulations
- TfN's Scheme of Delegated Functions

#### **1.6.2 Procedures for Evidencing TfN's Powers/Authorities to Counterparties**

TfN has no powers to access credit.

TfN will make available on request the scheme of delegation of treasury management activities contained in this document which states

- which officers carry out specified duties
- which officers are the authorised 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 TfN's treasury advisers (Link Asset Services) based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

#### **1.6.3 Statement on TfN's Political Risks and Management of Same**

The Finance Director shall take appropriate action with TfN, the Chief Executive Officer and the Chair of TfN to respond to and manage appropriately political risks.

#### **1.6.4 Monitoring Officer**

It is the duty of the monitoring officer to ensure that the treasury management activities of TfN are lawful.

#### **1.6.5. Chief Financial Officer**

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

### **1.7 Fraud, Error and Corruption, and Contingency Management**

This represents the risk that TfN 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.

TfN 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.

TfN 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.

#### **1.7.1.Details of Systems and Procedures to be Followed, Including Internet Services**

##### **Authority**

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All investments are negotiated by the responsible officer or authorised persons.

##### **Procedures**

- The Barclays.net electronic banking procedures includes internet access to TfN's bank account for both account information and payment transactions.
- Access to the Barclays.net system, and all approvals thereon, are secured through biometric scanners unique to the fingerprint of each individual
- Authorisation of payments, the creation and amendment of bank templates, and administrative changes all require two approvers to consent
- Individual payment transactions require three individuals: one transactor and two approvers
- Payment files are generated from the Microsoft Dynamics 365 system, downloaded into a secure Sharepoint file, and then uploaded into the Barclays.net system
- Checks are then made against templates to ensure data has not been compromised in transmission

- Manual bank payments not generated from the Accounts Payable module will be supported by a package of information and wet ink signatures from appropriate approvers to mimic the Accounts Payable approval process

#### **Investment transactions**

- All investment placements must be pre-approved by two authorised approvers, with transaction templates being completed by a third officer
- Investment redemptions must be approved by one approver, with transaction templates being completed by a second officer
- Investment redemptions must only be made into the same account that funds were transmitted from unless prior approval has been secured from two of TfN's authorised signatories (Finance Director and Monitoring Officer)
- The Financial Controller will retain documentation of all investment decisions, whilst bank transactions will also be retained to show approvals of cash transactions through the Barclays.net system

#### **Regularity and security**

- Investments are only made to institutions on the Approved List of Counterparties.
- All investments will be made and returned to TfN's Barclays General account.
- Counterparty limits are set for every institution that TfN invests with.
- Brokers, agents, and direct bank contacts have a list of named officials authorised to agree deals.
- There is a separation of duties between dealers and the checking and authorisation of all deals. All deals require pre-approval by two approvers with an independent third check on details.
- TfN's bank holds a list of officials who are authorised signatories for treasury management transactions.
- The Barclays.net system can only be accessed via a biometric scanner recognising the unique fingerprint of an authorised user
- All transactions that involve cash leaving the bank account require two approvers and one transactor who is not an approver
- All administrative changes within the Barclays.net system require two approvers
- All inter-account transfers require one approver.
- There is adequate insurance cover for employees involved in loans management and accounting.

#### **Checks**

- The bank reconciliation is carried out weekly from the bank statement to the financial ledger.
- An analysis of the investment portfolio is prepared weekly
- An investment income listing is produced every month when a review is undertaken against the budget for interest earnings and debt costs.

#### **Calculations**

- The Financial Controller will maintain analysis to ensure investment income paid to TfN is correct

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

TfN's main Business Continuity Plan includes a detailed section covering the essential financial systems and procedures, including banking, payments and revenue collection. All members of the Finance team are familiar with this plan and new members will be briefed on it. The plan is reviewed and updated at regular intervals with both paper and electronic copies being available.

TfN's plan is based upon remote working and access to Cloud and web-based systems.

All computer files are backed up in the Cloud to enable files to be accessed from remote sites.

### **1.7.3. Insurance Cover Details**

#### **Fidelity Insurance**

#### **Professional Indemnity Insurance**

## **1.8 Market Risk Management**

This represents 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.

TfN 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.

### **1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)**

TfN will not invest in instruments which are susceptible to capital fluctuations. TfN will limit its investments to term deposits and constant and low volatility net asset money market funds.

## **TMP 2 PERFORMANCE MEASUREMENT**

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

TfN has a number of approaches to evaluating treasury management decisions, including:

- a. Weekly review reports from our treasury management consultants detailing current markets, forecasts and model portfolio returns.
- b. Monthly reviews carried out by the Finance Director and Financial Controller.
- c. Annual review of performance and strategy with our treasury management consultants.
- d. Comparative reviews.

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

The Financial Controller meets with Link Asset Services every 4 months to review the performance of the investment portfolios and discuss emerging market issues.

#### **2.1.3 Annual Review after the end of the financial year**

In addition to the mid-year Treasury Management report to the TfN Board, the end of March out-turn report includes an annual treasury management report which reviews the performance of the investment portfolio. This report contains the following:

- a. total investments at the beginning and close of the financial year and average investment rates
- b. investment strategy for the year compared to actual strategy
- c. explanations for variance between original strategies and actual
- d. actual investment rates available through the year
- e. comparison of return on investments to the investment benchmark
- f. 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 investments compares to other comparable authorities. Data can be sourced from CIPFA Treasury Management statistics published each year for the last complete financial year and Link Asset Services' model portfolio.

Any comparative review will note the particular funding arrangements which define TfN's approach to cash flow management and its resulting investment strategy.

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

### **2.2.1 Investment**

The performance of investment earnings will be measured against the 7 day LIBID rate.

## **2.3 Policy concerning methods for testing Value for Money in Treasury Management**

### **2.3.1 Frequency and processes for tendering**

TfN's bank was appointed on a three-year contract, and its Treasury Advisors on a one-year contract with options for extension. The length of future appointments will be considered at the point of retender exercises.

### **2.3.2 Banking services**

TfN's banking arrangements are to be subject to competitive tender. TfN's bank was appointed in March 2018 for a three year period.

### **2.3.3 Money-broking services**

TfN may use money broking services in order to make deposits and will establish charges for all services prior to using them. TfN will also make use of money-market fund portals, and will review options prior to contracting.

### **2.3.4 Consultants'/advisers' services**

TfN's retains professional external advice from Link Asset Services.

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

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

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

### **3.1 Investment and New Instruments/Techniques:**

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

The following records will be retained:

- Internal investment decision templates.
- Investment confirmation documentation received from direct investments.
- Broker confirmation slips as necessary.
- Bank approval documentation.

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

- Cash flow analysis.
- Investment maturity analysis.
- Ledger reconciliation.
- Investment returns review

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

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

- a) Above all, be clear about the nature and extent of the risks to which TfN 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) Ensure that the appropriate internal approvals have been secured
- d) Be content that the documentation is adequate both to deliver TfN's objectives and protect TfN's interests, and to deliver good housekeeping
- e) Ensure that third parties are judged satisfactory in the context of TfN's creditworthiness policies, and that limits have not been exceeded
- f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.





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

### **4.1 Approved Treasury Management Activities**

- Investment management
- Cash management, including the management of cash flows
- Bank account management and administration

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

Refer to the Treasury Management Strategy.

### **4.3 Approved Techniques**

- Forward dealing
- The use of structured products such as callable deposits

### **4.4 Investment Limits**

The Treasury Management Strategy Statement sets out the limits and the guidelines for use of each type of investment instrument.

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

### **5.1 Allocation of responsibilities**

#### **(i) TfN Board**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual treasury management strategy
- approval of capital strategy and capital programme
- approval of annual revenue budget

#### **(ii) Audit & Governance Committee**

- recommendation of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and recommendations
- approval of the division of responsibilities
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

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

#### **5.2.1 TfN ensures a division of duties in the following manner:**

##### Investment placement – internal parameters

Deals must be pre-approved by two authorised approvers, with documentation reviewed in advance by a third officer.

##### Investment placement – money market funds

The ICD money market portal is configured to allow for a pool of traders and a pool of approvers. All transactions require one individual from the pool to enter transactions, and one individual from the pool to approve the transaction.

##### Accounts Payable – payment proposals

Every payment proposal must be proposed by one officer and then approved by a second. One of the Financial Controller, Finance Manager, or Assistant Accountant must then upload the payment file to Barclays.net.

##### Bank transactions

All transactions must be approved by two authorised approvers, with the bank transaction being entered by a third officer. An approver cannot also be a transactor.

##### Investment redemption

All redemptions must be pre-approved by one authorised approver, with documentation reviewed in advance by a second officer.

##### Ledger input

All banking journals require approval from an officer different to he/she who entered the journal.

##### Bank reconciliations

Bank reconciliations must be approved by the Finance Director (or Financial Controller in his/her absence) and be prepared by a second officer.

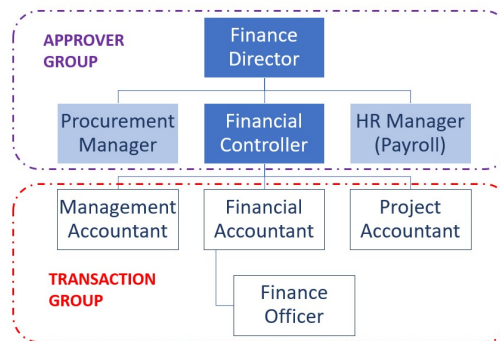
#### Bank administration

Bank administration changes can only be proposed by the Finance Director or the Financial Controller, and require both officers to approve the transaction.

#### Authorised officers for account opening

The Finance Director, the Monitoring Officer, and the Chief Executive are authorised officers for the purposes of account opening. Changes to account conditions requires approval from those officers signatory to the account opening.

### 5.3 Treasury Management Organisation Chart



#### 5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in TfN is the Finance Director (This post is also the S151 officer.) This officer will carry out the following duties: -

- a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) submitting cyclical 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 powers to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to invest to members of his staff, principally the Financial Controller, to act as temporary cover for leave/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) It is also the responsibility of the responsible officer to ensure that TfN complies with the requirements of The Non Investment Products Code

(formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

#### **5.4.2. Financial Controller**

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 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

#### **5.4.3. 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 as required to TfN Board and Audit and Governance Committee on treasury policy, activity and performance.

#### **5.4.4. The Monitoring Officer**

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.

#### **5.4.5. 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**

The Financial Controller is also the deputy S151 Officer. The Financial Controller will also ensure that cover is available for the Financial Controller role and other officers as necessary.

### **5.6 Dealing Limits**

The following posts are authorised to approve transactions. At all times at least two pre-approvals must be granted to enter into transactions:

- The Finance Director
- The Financial Controller
- The Procurement Manager

**5.7 Policy on Brokers' Services**

It is TfN's policy to rotate business between brokers.

**5.8 Policy on Taping of Conversations**

It is not TfN's policy to tape brokers conversations.

**5.9 Direct Dealing Practices**

TfN will deal directly with counterparties if it is appropriate and TfN believes that better terms will be available. Direct dealing includes transactions with money market funds and banks through fixed-term deposit accounts

**5.10 Settlement Transmission Procedures**

All investments will be settled through Barclays.net using the segregation of duties detailed.

**5.11 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.

**5.12 Arrangements Concerning the Management of Third-Party Funds.**

TfN does not currently manage any third-party funds.

**5.13 Authorised Signatories**

The TfN Head of Paid Service, Finance Director, and Monitoring Officer are authorised signatories.

## **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 Strategy Statement and the Annual Investment Strategy
- b) Mid-year Treasury Management Strategy report
- c) Annual review report after the end of the year within the out-turn Financial Monitoring Report.

### **6.2 Annual Treasury Management Strategy Statement (TMSS)**

- 1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the TfN Board for approval before the commencement of each financial year.
- 2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate investment decisions.
- 3. The Treasury Management Strategy Statement, noting TfN's inability to access credit, is concerned with the following elements:
  - a) Prudential and Treasury Indicators
  - b) current Treasury portfolio position
  - c) prospects for interest rates
  - d) investment strategy
  - e) creditworthiness policy
  - f) policy on the use of external service providers
  - g) any extraordinary treasury issue

4. The Treasury Management Strategy Statement 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.

### **6.3 The Annual Investment Strategy**

Included within the Treasury Management Strategy Statement is the report on the Annual Investment Strategy which sets out the following: -

- a) TfN's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
- c) Which specified and non-specified instruments TfN will use – if at all
- d) Whether they will be used by the in-house team, external managers or both (if applicable)
- e) TfN's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies TfN will use
- g) How TfN will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

### **6.4 Policy on Prudential and Treasury Indicators**

1. TfN 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 TfN Board

### **6.5 Mid-year review**

TfN will review its treasury management activities and strategy on at least a six-monthly basis. 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.

#### **6.7 Year-end performance report**

A year-end performance report will go to TfN Board as part of the year-end outturn report. This report will contain the following information: -

- a) any non-compliance with Prudential limits or other treasury management limits
- b) the position on cash and cash equivalents

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

The Annual Treasury Management Strategy Statement, the Mid-Year Treasury Management Strategy Update, and the Annual Treasury Management Report is reviewed at the TfN Board. Meeting documents are available on TfN's website at <https://transportforthenorth.com/>

## **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. TfN 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 TfN's treasury management activities.

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

The Finance Director will prepare at least a three-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 two years. This will bring together all the costs involved in running the function, together with associated income. The Finance Director 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.**

- Calculation of interest on working balances
- Interest accrual calculation
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- External fund manager(s) valuations including investment income schedules and movement in capital values (if applicable)

### **7.4 Monthly Budget Monitoring Report**

Monthly Budget Monitoring reports are produced for the Finance Director with quarterly reports to TfN.

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

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

Cash flow projections are prepared annually and updated monthly and daily. The annual and monthly cash flow projections are prepared according to 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.

### **8.2 Bank Statements Procedures**

TfN reviews its bank accounts on a daily basis, and performs a weekly bank reconciliation exercise.

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

Our policy is to pay all creditors within the agreed terms of trading.

### **8.4 Arrangements for Monitoring Debtors / Creditors Levels**

The Financial Controller is responsible for monitoring the levels of debtors and creditors.

### **8.5 Procedures for Banking of Funds**

TfN does not permit receipt of funds from cash or cheque. All income is received through electronic banking.

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

TfN does not prepay liabilities unless there is a sound business reason that is aligned to TfN's risk appetite. Prepayments of liabilities would be authorised by the Financial Controller and where necessary the Finance Director.

## **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 2007, 2012 and 2015**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and 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. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

### **9.4 Local authorities**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts 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 2007, 2012 and 2015. 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 TfN 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 Finance Director
- f) in order to ensure compliance is appropriately managed, TfN 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 The Head of Legal Services and it shall be a requirement that all teams implement this corporate policy and procedures.

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

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

All transactions will be carried out through the Barclays.net system.

## **TMP 10 Training and Qualifications**

TfN recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Finance officers employed by TfN
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. TfN operates a Personal Development Review system which identifies 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 Finance Director 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, or other relevant bodies.

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

The HR team will maintain records on all staff and the training they receive.

### **10.3 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.

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

1. Where the Chief Financial Officer is a member of ICAEW, 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. All staff involved in treasury management activities 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**

TfN 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 Finance 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.

Finance officers 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) TfN's banking provider is Barclays Bank.
- b) Barclays Bank is authorised to undertake banking activities by the FSA.
- c) TfN's banking branch address is:  
  
Barclays  
Leicester  
LE87 2BBB
- d) TfN's banking contract commenced in 2018 for a three-year term.
- e) The cost of banking services is variable depending on a schedule of tariffs set annually applied to volumes of transactions.
- f) Banking charge payments are due monthly and quarterly.

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

TfN does not have access to credit, so does not require the services of money-brokers.

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

##### **Treasury Consultancy Services**

TfN 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 annually by the Finance Director to check whether performance has met expectations.

- a) Name of supplier of service is Link Treasury Solutions. Their address is 65 Gresham Street, London, EC2V 7NQ
- b) Regulatory status: investment adviser authorised by the FCA
- c) Contract cost is £13,000.

#### **11.1.4 Procedures and Frequency for Tendering Services**

As per TfN's contract procedure rules.



## **TMP 12 Corporate Governance**

### **12.1.1 List of documents to be made available for public inspection**

- a. TfN 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 Strategy Statement
  - Treasury Manage Practices
  - Annual Statement of Accounts
  - Annual Revenue Budget and MTFS
  - Capital Strategy
  - Minutes of Board / committee meetings
  - Third party expenditure via quarterly corporate spend analysis published on the website to comply with the coalition government's transparency agenda.

## **TMP 13 Treasury management practices for non-treasury investments**

TfN does not undertake non-treasury investments.