

TEESSIDE PENSION FUND TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for Teesside Pension Fund treasury operations are referenced below:

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Introduction:

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Fund had adopted the original Code and has similarly adopted the revised 2011 Code. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,
- Suitable Treasury Management Practices 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 Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Fund's treasury functions.

TMP 1: RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Fund. The Fund's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Officer nominated with Section 151 responsibilities (S151 Officer), currently the Strategic Director of Finance, Governance and Support, will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will in accordance with 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 as schedules below.

1. **Credit and Counterparty Risk Management:** Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Fund under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished credit worthiness, and the resulting detrimental effect on the Fund's capital and revenue resources.

Principle: The Fund 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.

2. **Liquidity Risk Management:** Liquidity risk is the risk that cash will not be available when it is needed.

Principle: The S151 Officer will ensure the Fund has adequate cash resources, overdraft or standby facilities to enable it to meet its future obligations.

3. **Interest Rate risk** is the risk that fluctuations in the levels of interest rates create an unexpected burden on the Fund's finances, against which the Fund has failed to protect itself adequately.

Principle: The Fund 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.

4. **Exchange Rate Risk Management:** The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Fund's finances against which the Fund has failed to protect itself adequately.

Principle: The Fund will only invest its surplus cash in GB pounds, without the prior express permission of the Teesside Pension Fund Investment Panel (the Panel).

5. **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 refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Fund will not borrow, except for very short-term use of its overdraft facility.

6. **Legal and Regulatory Risk Management:** The risk that the Fund itself, or a third party 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 Fund suffers losses accordingly.

Principle: The Fund 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 Fund, particularly with regard to duty of care and fees charged.

The Fund recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

7. **Fraud, Error and Corruption, and Contingency Management:** This is the risk that the Fund 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 referred to as operational risk.

Principle: The Fund 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.

8. **Market Risk Management:** This is the risk that, through adverse market fluctuations in the value of the principal sums the Fund borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle: This Fund 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.

Schedule:1	Credit and Counterparty Risk Management
<p>Criteria to be used for creating/managing approved counterparty lists/limits</p>	<p>The S151 Officer is responsible for setting prudent criteria and the Fund's treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by the Panel.</p> <p>The current criteria is contained in Appendix A1 to this Schedule.</p> <p>The Fund's treasury management advisors will advise on credit policy and creditworthiness related issues. The Fund will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support which now includes resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities). The Fund will also take into account information on corporate developments of and market sentiment towards investment counterparties.</p> <p>The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.</p>
<p>Approved methodology for changing limits and adding/removing counterparties</p> <p>Risk management :</p> <p>(a) creditworthiness deteriorates below the minimum criteria</p> <p>(b) ratings are placed on review for downgrade</p>	<p>The S151 Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.</p> <p>Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then</p> <ul style="list-style-type: none"> - No new investments will be made, - Any existing investments that can be recalled or sold at no cost will be, and - Full consideration will be given to the recall or sale of other existing investments with the affected counterparty. <p>Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known.</p> <p>The policy in (b) will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.</p>
<p>Counterparty list and limits</p>	<p>A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis by the Head of Investments and Treasury Managements</p> <p>The Fund's Treasury Manager will adhere to the counterparty credit criteria and maximum individual limits set by the Fund.</p>

Details of credit rating agencies' services and their application	<p>The Fund considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.</p> <p>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.</p>
Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	<p>The Fund's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.</p> <p>The Fund's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.</p> <p>In addition, the Head of Investments and Treasury Management has access to quality financial press for information on counterparties.</p>
Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	<p>Investments will be displayed so as to show total group exposure.</p> <p>Group limits will be set for the above, in terms of monetary value, where appropriate. Group limits for organisations under the same ownership will be set at the same level as the lead institution in that group.</p>

Schedule:2	Liquidity Risk Management
Cash flow and cash Balances	<p>The Fund's nominated dealers shall seek to optimise the balance held in the Fund's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.</p> <p>In order to achieve the maximum return from investments, a daily cash balance of £Nil-£100,000 is the objective for the Fund's bank account.</p>
Short term investments	<p>A balance in the region of £5,000,000 to deal with day to day cash flow fluctuations is maintained by investing money overnight with the Fund's bankers when it is cost effective to do so.</p> <p>The Fund also uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements These Accounts/Funds are named on the Fund's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Fund's investment strategy.</p>
Bank Overdraft and standby facilities	<p>The Fund has an authorised overdraft limit with its bankers NatWest of £50,000 at an agreed rate of 1% over base rate.</p>

Schedule:3	Interest Rate Risk Management
Managing changes to interest rate levels	<p>The main impact of changes in interest rate levels is to monies invested at variable rates of interest.</p> <p>Interest rate forecasts are provided by the Fund's treasury advisors and are closely monitored by the S151 Officer.</p> <p>For its investments, the Fund also considers dealing from forward periods dependent upon market conditions. The Fund's counterparty term limits will apply and will include the forward period of the investment.</p>

Schedule:4	Exchange Rate Risk Management
Exchange rate risk management	<p>This Fund does not, on a day to day basis, have foreign currency transactions or receipts. Receipt of foreign currency will be converted to sterling at the earliest opportunity.</p> <p>If the Fund has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.</p>

Schedule:6	Legal and Regulatory Risk Management
References to relevant statutes and regulations	<p>The treasury management activities of the Fund shall comply fully with legal statute and the regulations of the Fund. These are:</p> <ul style="list-style-type: none"> ▪ CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments ▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities ▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments ▪ CIPFA Standard of Professional Practice on Treasury Management ▪ The Local Government Act 2003 ▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments ▪ Pensions, England and Wales - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 – SI 2009 No 3093 ▪ The CLG's statutory Guidance on Minimum Revenue Provision (MRP) ▪ The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments ▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883 ▪ LAAP Bulletins ▪ Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards) ▪ Accounts and Audit Regulations 2003, as amended together with CLG's Guidance ▪ The Localism Act 2011 ▪ The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets ▪ The Markets in Financial Instruments Directive II (MiFID II) ▪ The Fund as part of Middlesbrough Council's Constitution including:- <ul style="list-style-type: none"> ○ Standing Order relating to Contracts ○ Financial Regulations ○ Scheme of Delegation

Procedures for evidencing the organisation's powers/ authorities to counterparties	<p>The Fund's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Executive Committee.</p> <p>The Fund will confirm, if requested to do so by counterparties, the powers and authorities under which the Fund effects transactions with them.</p> <p>Where required, the Fund will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>
Required information from counterparties concerning their powers/ authorities	Investments shall only be made with institutions on the Fund's authorised lending list or in securities which meet the Fund's approved credit criteria.
Statement on political risks and management of the same	<p>Political risk is managed by:</p> <ul style="list-style-type: none"> • adoption of the CIPFA Treasury Management Code of Practice • adherence to Corporate Governance (TMP 12 – Corporate Governance) • adherence to the Statement of Professional Practice by the S151 Officer • the roles of the Panel and the Teesside Pension Board (the Board).

Schedule:7	Fraud, Error and Corruption, and Contingency Management
Details of systems and procedures to be followed, including Internet services	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.</p> <p>1. <u>Electronic Banking and Dealing</u> <u>Banking:</u> The Fund's online banking service provided by the NatWest Bank is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are determined by the Head of Financial Governance & Revenues.</p> <p>Officer access is reviewed at least 6 monthly or as necessary.</p> <p>Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented.</p> <p>2. <u>Standard Settlement Instructions (SSI) list:</u> a list is maintained of named officers who have the authority to transact cash investments</p> <ul style="list-style-type: none"> • Brokers and counterparties with whom the Fund deals direct are provided a copy of the SSI list. <p>3. <u>Payment Authorisation:</u></p> <ul style="list-style-type: none"> • Inflow and outflow of monies invested will only be from the counterparty's bank accounts. • Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements.

Verification	<p>Investments will be maintained in treasury management documentation which will include fees and brokerage paid.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> <p>When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.</p>
Substantiation	<ol style="list-style-type: none"> 1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end. 2. Working papers are retained for audit inspection. 3. The bank reconciliation is carried out monthly from the bank statement to the Agresso financial system
Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.
Contingency Management	<ol style="list-style-type: none"> 1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used to restore files, if necessary. 2. Full system back-up and disaster recovery procedures are set out in the Council's IT Strategy 3. Temporary off-site working facility: The officers who can avail of this facility following an emergency are the Fund's nominated dealers, those Officers tasked with completing the administration of each cash investment who will individually be made aware of the procedures to follow. 4. Electronic Banking System Failure: Balance details can be provided by the NatWest Bank plc over the phone. Manual transactions can be made either by fax or the local branch with back signatory authorisation. 5. The Business Continuity Plan is maintained by the Head of Investments and Treasury Management and printed copies are retained in a secure location by the S151 Officer.
Insurance Cover details	The Fund has Fidelity Guarantee cover. Details of the provider and cover are held by the Insurance Section.

Schedule:8	Market Risk Management
Accounting for unrealised gains/losses	<p>The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.</p> <p>VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.</p>

TMP 2: PERFORMANCE MEASUREMENT

Principle: The Fund measures its treasury management function against a benchmark. This benchmark is specified in the latest Asset/Liability study. The main purpose of cash to the Fund is to provide timely liquidity for investment in other asset classes.

TMP 3: DECISION-MAKING AND ANALYSIS

Principle: The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule:

Major treasury decisions	As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Fund will create and maintain an audit trail of major treasury management decisions which comprise : a) a change in banking arrangements b) the appointing/replacing a treasury advisor c) appointing/replacing a fund manager
Process	The Fund's strategy is reported to the Panel, quarterly, as part of the Treasury Management report. It set out the cash management strategy and provide evidence to show compliance to the strategy.
Delegated powers for treasury management	The S151 Officer has delegated powers to carry out the Fund's strategy for depositing surplus funds and managing the cash flows of the Fund.

<p>Issues to be addressed, evaluation, authorisation</p>	<p>In exercising these powers, the S151 Officer and those to whom the treasury activity have been delegated will</p> <ul style="list-style-type: none"> • have regard to the nature and extent of any associated risks to which the Fund may become exposed; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is adequate to deliver the Fund's objectives, protect the Fund's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; • follow best practice in implementing the treasury transaction. <p>In exercising Investment decisions, the S151 Officer will:</p> <ul style="list-style-type: none"> • Determine that the investment is within the Fund's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of cash flow availability, prevailing market conditions, and the Fund's Treasury Management strategy; • the credit risk associated with unsecured investments with banks and building societies • consider the alternative investment products and techniques available if appropriate.
<p>Processes to be followed</p>	<p>The processes to be followed will be in keeping with TMP 4: The Fund's Approved, Instruments, Methods and Techniques.</p>
<p>Evidence and records to be kept</p>	<p>The Fund will maintain a record of all major treasury management cash transactions. These will allow for an historical assessment of compliance with the Fund's Treasury Management Practices.</p> <p>Records and working papers will be maintained by the Fund.</p>

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle: The Fund will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 Risk Management**.

Approved treasury management activities	<p>The Fund is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> ▪ Managing cashflow ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Fund's surplus funds activities. <p>The above list is not finite and the Fund would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Fund will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
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Approved investment instruments	<p>The Fund will report/update, through its quarterly Treasury Management report which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies</p> <p>The Fund will determine through the TM report which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Fund's credit criteria will also apply.</p> <p><i>examples</i></p> <ul style="list-style-type: none"> ▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local, police and fire authorities ▪ Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit) ▪ Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM) ▪ Treasury Bills ▪ Reverse Repurchase Agreements ('reverse repos') ▪ Investments with Registered Providers of Social Housing (i.e. housing associations) ▪ Commercial paper ▪ Pooled funds, i.e. Collective Investment schemes meeting the criteria in SI 2004 No 534 and subsequent amendments ▪ Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments
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Use of Derivatives	<p>The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).</p> <p>Even though the Fund is unlikely to use derivatives, it is a requirement of the CIPFA Code to clearly detail our policy on their in the annual treasury strategy.</p> <p>The Fund will only use standalone financial derivatives where these can be clearly demonstrated to reduce the overall level of the financial risks that the Fund is exposed to.</p> <p>Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.</p> <p>Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.</p> <p>Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.</p> <p>The use of derivatives is restricted to only those officers who have completed the appropriate training for their use.</p>
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TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

Principle: The Fund considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Fund intends, as a result of lack of resources or other circumstances, to depart from these principles, the **S151 Officer** will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The **S151 Officer** will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The **S151 Officer** will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

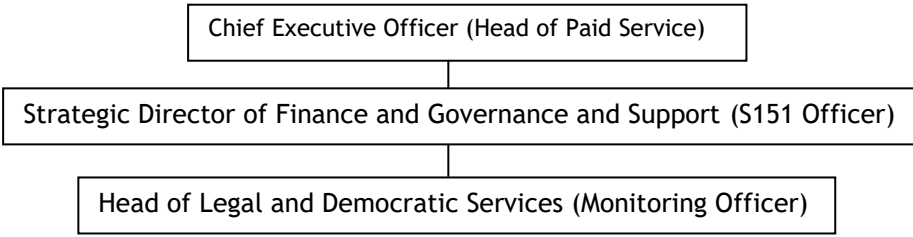
The **S151 Officer** will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the **S151 Officer** in respect of treasury management are set out in the schedule below. The **S151 Officer** will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:

Limits to responsibilities at Executive levels	<p>Teesside Pension Fund Investment Panel:</p> <ul style="list-style-type: none"> • receiving and reviewing reports on treasury management policies, practices and activities • approval of amendments to adopted clauses, treasury management policy statement and treasury management practices • receiving and reviewing external audit reports and acting on recommendations • approving the selection of external service providers and agreeing terms of appointment
Principles and practices concerning segregation of duties	<p>The segregation of duties will be determined by the S151 Officer.</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> • the officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer(s) with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations. • the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments <p>Additionally, The Fund receives bank statements on a daily basis. These are posted independent of the cash management function in order to maintain an adequate separation of duties.</p>

	<p>The Officer nominated with Section 151 responsibilities is responsible for:</p> <ul style="list-style-type: none"> • The appointment of external service providers • The determination of the Funds principle Banking arrangements • The Fund’s Treasury Management Policy • The Fund’s Treasury Management Principles • ensuring the adequacy of internal audit and liaising with external audit
<p>Statement of duties/ responsibilities of each treasury post</p>	<p>Treasury Manager</p> <ul style="list-style-type: none"> • Dealing cash on behalf of the Fund. • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices. • The Treasury Manager may delegate their power to borrow and invest to the Head of Investments and Treasury Management, the Investment Officer, and the Investment Support Officer.
	<p>Head of Investments and Treasury Management</p> <ul style="list-style-type: none"> • Dealing cash on behalf of the Fund. • receiving and reviewing management information reports • reviewing the performance of the Funds treasury management function. • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • recommending the appointment of external service providers <p>Investment Officer</p> <ul style="list-style-type: none"> • Dealing cash on behalf of the Fund. • adherence to agreed policies and practices on a day to day basis • identifying and recommending opportunities for improved practice <p>Investment Support Officer</p> <ul style="list-style-type: none"> • Dealing cash on behalf of the Fund. • adherence to agreed policies and practices on a day to day basis • identifying and recommending opportunities for improved practice <p>Accounting Officer - Treasury Management</p> <ul style="list-style-type: none"> • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • recording/reconciling counterparty documentation.

Absence cover arrangements	<p>Cover in the absence of the Treasury Manager is provided by:</p> <ul style="list-style-type: none"> • <i>Head of Investments and Treasury Management</i> • <i>Investment Officer</i> • <i>Investment Support Officer</i> <p>Cover in the absence of the Accounting Officer - Treasury Management is provided by:</p> <ul style="list-style-type: none"> • <i>Other staff within Financial Governance and Revenues</i> <p>Cover is reviewed at least every 6 months, or as necessary.</p>
Description of the relationships between the Officer nominated with Section 151 responsibilities, the monitoring officer and the head of paid service.	 <pre> graph TD CEO[Chief Executive Officer (Head of Paid Service)] --> SD[Strategic Director of Finance and Governance and Support (S151 Officer)] SD --> HLD[Head of Legal and Democratic Services (Monitoring Officer)] </pre>

Dealing

Authorised officers	<p>Responsible officer for investment decisions :</p> <p>Lending activity: Treasury Manager</p> <p>Transaction recording: Chief Accountant</p>
Dealing limits	<p>Internally Managed Investments:</p> <ul style="list-style-type: none"> • the maximum for any one investment limited only by the Counterparty limit and the available cash on the day
List of approved brokers	Brokers used by the Fund are named in TMP 11: External Service Providers
Policy on brokers' services	It is the Fund's policy to utilise the services between at least two money brokers. The Fund will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers are taped by the brokers.
Direct dealing practices	Prior to undertaking direct dealing, the Fund will ensure that each counterparty has been provided with the Fund's list of authorised dealers and the Fund's Standard Settlement Procedures.
Deal Ticket proforma	Deals will be recorded as per the deal ticket proforma (proforma maintained at operational level)
Settlement transmission procedures	<ul style="list-style-type: none"> • settlements are made by CHAPS. • all CHAPS payments relating to settlement transactions require authorisation in accordance with Middlesbrough Council's Financial Procedures. • the details are transmitted by the Fund's bankers electronic banking facility, or by fax, to the Fund's bankers.

Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.</p> <p>Investments</p> <ul style="list-style-type: none"> • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator • Chaps payment transmission document
Arrangements concerning the management of counterparty funds	<p>Please state here how the Fund manages counterparty funds:</p> <ul style="list-style-type: none"> • The Treasury Manager has responsibility for updating the Fund's records with any credit developments. • The Treasury Manager is tasked with the responsibility for checking that records have been correctly updated to reflect any credit developments.

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle: The Fund will ensure that quarterly reports are prepared and considered on the implementation of its treasury management strategy. These reports will be reported to the Teesside Pension Fund Committee.

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle: The Fund will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Fund's accounts is set out in the schedule.

The Fund will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

Proper accounting practice	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".
Format of the Fund's accounts	The current form of the Fund's accounts is available on the Fund's website
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.
Treasury-related information requirements of external auditors	The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Fund's officers.
	<p><u>Investments:</u></p> <ul style="list-style-type: none"> • Investment transactions during the year including any transaction-related costs • cash and bank balances at year end • Short-term investments at year end • Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end • calculation of (i) interest received (ii) accrued interest • actual interest received • Pooled funds' purchase and sale transaction confirmations received; • notification of income distributions (if any) • Evidence of existence and title to investments (month-end / quarter-end statements)
	<p><u>Other:</u></p> <ul style="list-style-type: none"> ▪ Details of treasury-related material events after balance sheet date not reflected in the financial statements. ▪ External advisors'/consultants' charges
Internal Audit	Internal Audit generally conducts an annual review of the treasury management function and probity testing. The internal auditors will be given access to treasury management information/documentation as required by them.

Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. Any serious breach of the TM Code's recommendations should be brought to the attention of the external auditor.
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TMP 8: CASH AND CASH FLOW MANAGEMENT

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Fund will be under the control of the Officer nominated with Section 151 responsibilities, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Officer nominated with Section 151 responsibilities will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Arrangements for preparing /submitting cash flow statements	<p>The cash flow forecasts and statements are held at operational level.</p> <p>Daily cash flows show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the cash flow forecasts which are maintained in tailored spreadsheet models.</p>
Content and frequency of cash flow projections	<p>The detailed daily cash flow model includes the following:</p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> ▪ Contributions from the scheduled and admitted bodies ▪ Income from investments ▪ Other operating cash receipts <p><u>Outflows:</u></p> <ul style="list-style-type: none"> ▪ Pensions and payments on behalf of members ▪ Ad-hoc investments made by the Fund ▪ Other operating cash payments
Bank statements procedures	<p>The Fund receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger.</p>
Payment scheduling	<p>The Fund has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> • 20 days from date of invoice.
Banking of funds	<p>Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the cashiers section are banked daily.</p>

TMP 9: MONEY LAUNDERING

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering 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.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were 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 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle: *The Fund is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.*

Schedule:

Anti-money laundering policy	<p>This Fund’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Fund has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
Treasury documentation	<p>The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:</p> <ul style="list-style-type: none"> – Awareness of what constitutes money laundering; – The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed; – Maintaining up-to-date direct dealing and SSI mandates with counterparties

<p>Nomination of Responsible Officer(s)</p>	<p>(a) The Fund has nominated the Head of Financial Governance and Revenues to be the responsible officer to whom any suspicions relating to transactions involving the Fund will be communicated.</p> <p>(b) The responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>
<p>Procedures for establishing the Identity of Lenders</p>	<p>(a) In the course of its treasury activities, the Fund will only invest with those counterparties which are on its approved lending list.</p> <p>(b) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/ Prudential Regulation Authority's website.</p> <p>(c) All receipts/disbursements of funds will be undertaken by <u>BACS</u> or <u>CHAPS</u> settlement.</p> <p>(d) All banking transactions will only be undertaken by the personnel authorised to operate the Fund's banks accounts.</p> <p>(e) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.</p>

TMP 10: TRAINING AND QUALIFICATIONS

Principle: *The Fund 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 Officer nominated with Section 151 responsibilities will recommend and implement the necessary arrangements.*

The Officer nominated with Section 151 responsibilities will ensure that Fund members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and 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 are detailed in the schedule below.

Schedule:

Qualifications/ experience for treasury management dealers	<i>It is desirable to have a recognised qualification in accountancy, banking, or investments, &/or a background in accountancy, banking, or financial services.</i>
Details of approved training courses	The courses/events the Fund would expect its treasury personnel to consider are (<i>examples below</i>): <ul style="list-style-type: none"> ▪ Certificate in International Treasury Management - Public Finance (<i>this is the new CIPFA TM qualification run by the Association of Corporate Treasurers</i>) ▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF ▪ Any courses/seminars run by Treasury Management Consultants. ▪ Training attended by those responsible for scrutiny of the treasury function
Records of training received by treasury staff	Treasury-related training records are maintained.
Records of training received by those charged with governance of the Pension Fund	Training records are maintained of those people/committees responsible for governance of the Pension Fund.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

Principle: The Fund recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Officer nominated with Section 151 responsibilities, and details of the current arrangements are set out in the schedule below.

Schedule:

Contract threshold	The Fund's Financial Regulations require that a formal contract is in place with external service providers where the contract value is <u>£150k</u> and above. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of service providers and procedures and frequency for tendering services	<p>(a) Bankers to the Fund: NatWest Bank PLC 106 Linthorpe Road, Middlesbrough, TS1 2JX Telephone Number: 0113 307 8266/0113 307 8258 Contract period: October 2016 to March 2021 Formal agreement in place: Yes This service will be re-tendered/extended in 2021</p> <p>(b) Treasury advisor Arlingclose 35 Chiswell Street, London, EC1Y 4SE Telephone Number: 08448 808200 Contract period: Sept 2016 to Aug 2019 Formal agreement in place: yes This service may be re-tendered every 3 years</p> <p>(c) Brokers: See Appendix C</p>
Regulatory status of services provided	<p>The Fund's external service providers are listed below, along with their regulatory status:</p> <ul style="list-style-type: none"> • Bankers to the Fund - regulated by Bank of England • Treasury Adviser - regulated by the Financial Conduct Authority • Collective Investment Schemes (pooled funds) - regulated by the UK's Financial Conduct Authority

Details of service provided by Treasury Advisor	Arlingclose provide treasury management advice and support to the Fund to support its investment activity.
Bribery Act	The Fund is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers

TMP 12: CORPORATE GOVERNANCE

Principle: The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Fund has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and The Officer nominated with Section 151 responsibilities will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

Stewardship responsibilities	The Head of Investments and Treasury Management ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	The following documents are freely available for public inspection: <i>Examples</i> <ul style="list-style-type: none">▪ Annual Statement of Accounts▪ Treasury Management Strategy▪ Quarterly Treasury Management report
Fund's website.	Financial information is additionally available on the Fund's website.
Procedures for consultation with stakeholders.	Members and senior officers of the Fund are consulted via reports to the Panel and the Board.
List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	The Fund does not manage any external funds on behalf of others.

The criteria for creating the approved counterparty list:

- The UK Government;
- The Debt Management Office (of which the PWLB is part), in the form of The Debt Management Account Deposit Facility (DMO);
- UK Local Authorities, Police Authorities, Fire Authorities and nationalised industries;
- The custodian of the Pension Fund's assets
- UK Clearing Banks and their wholly-owned subsidiaries;
- All UK Building Societies;
- Those UK Banks listed on the London Stock Exchange;
- Those Banks, from Denmark, Finland, Norway, or Sweden, with £5bn in assets (rounded to the nearest £100m), which also have a rating at least equivalent to AA-.
- Up to 4 AAA Rated Sterling Cash Funds.

Investment Strategy

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Government
UK Government	n/a	£ Unlimited 50 years
All UK Local, Police & Fire Authorities	n/a	£25m 5 years
AAA	£25m 5 years	£50m 5 years
AA+	£25m 5 years	£50m 5 years
AA	£25m 4 years	£50m 5 years
AA-	£25m 3 years	£50m 5 years
A+	£25m 2 years	£25m 5 years
A	£25m 13 months	£25m 5 years
A-	£25m 6 months	£25m 5 years
BBB+	£10m 100 days	£10m 2 years
None	£1m 6 months	£25m 5 years
Unrated UK Building Societies with assets >£1.5 billion	£5m 6 months	n/a
Fund Custodian	£30m (+£20m) n/a	n/a
Pooled funds	£25m per fund	

This table must be read in conjunction with the notes below

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, and certificates of deposit with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Fund Custodian: The Fund uses a custodian as a nominee to hold and own its listed investment assets. As part of this ownership, the Fund requires cash to be received and paid for the transaction of investment assets and receive investment income from the Fund's investments. In order to facilitate the cash flow required for the management of the Fund, the limit can be temporarily increased for a maximum of one week at a time. Any such increase must be reported to the Strategic Director Finance, Governance and Support specifying why the increase was needed.

Government: Deposits, loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, UK police & fire authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or with other local, police or fire authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Table 2: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£50m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£50m per group
Foreign countries	£50m per country
Investments Maturing beyond 1 year	£50m

List of Approved Brokers

Sterling International Brokers

Tradition (UK)

Martins Brokers

Tullett Prebon Yemane

King and Shaxson

ICap

The following investment has been arranged and agreed by telephone
on _____ at (time dealt) _____

Ref.No. Broker Counterparty **Transaction Details**BROKER NAME COUNTERPARTY

AMOUNT OF LOAN

£

RATE

 %VALUE DATE REPAYABLE ON

OR

NOTICE PERIOD

 Days DAYS

BANK DETAILS

S/C A/C **Additional Information**

ACCOUNT DETAILS

 A / B

54-10-04

A = 94586489

B = 94586470

ARRANGED BY