



## BIRCHWOOD TOWN COUNCIL TREASURY / INVESTMENT MANAGEMENT STRATEGY

### Introduction:

**Treasury Management** is the management of the Council's cash flows, its banking, money market and capital market transactions (if any); the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council's **Investment Management Strategy** is encompassed within the **Treasury Management Strategy**.

Much of the information within Birchwood Town Council's Treasury Management Strategy is gleaned from the Council's detailed Financial Regulations. These regulations are reviewed annually and approved by the full Council. The Council also undertakes an Annual Risk Assessment exercise for financial and operational processes, also reviewed and approved annually.

Birchwood Town Council's Financial Regulations look at how the Council manages its money and any financial risks. The Council's priority is to make sure it has the money required to manage its daily business. It also guides the development of any longer-term financial strategies.

### 1. General

- (a) The Council is responsible in law for ensuring that its financial management is adequate and effective, and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions, including arrangements for the management of risk.

It is a legal duty, as introduced in the Local Government Act 1999 that the Council should endeavour to achieve 'best value', which requires the Council, where possible, to continue to improve the way in which it functions and to take into account a combination of economy, efficiency and effectiveness.

- (b) The Council's accounting control systems must include measures:
- for the timely production of accounts;
  - that provide for the safe and efficient safeguarding of public money;
  - to prevent and detect inaccuracy and fraud; and
  - identifying the duties of officers.
- (c) At least once a year, prior to approving the Annual Governance Statement, the Council must review the effectiveness of its system of internal control which shall be in accordance with proper practices.
- (d) The Responsible Financial Officer (RFO) holds a statutory office to be appointed by the Council. The RFO:
- acts under the policy direction of the Council;
  - administers the Council's financial affairs in accordance with all Acts, Regulations and proper practices;
  - determines on behalf of the Council its accounting records and accounting control systems;
  - ensures the accounting control systems are observed;
  - maintains the accounting records of the Council up to date in accordance with proper practices;
  - assists the Council to secure economy, efficiency and effectiveness in the use of its resources; and
  - produces financial management information as required by the Council.

- (e) The accounting records determined by the RFO shall be sufficient to show and explain the Council's transactions and to enable the RFO to ensure that any income and expenditure account and statement of balances, or record of receipts and payments and additional information, as the case may be, or management information prepared for the Council from time to time, comply with the Accounts and Audit Regulations.
- (f) The accounting records determined by the RFO shall in particular contain:
- entries from day to day of all sums of money received and expended by the Council and the matters to which the income and expenditure or receipts and payments account relate;
  - a record of the assets and liabilities of the Council; and
  - wherever relevant, a record of the Council's income and expenditure in relation to claims made, or to be made, for any contribution, grant or subsidy.
- (g) The accounting control systems determined by the RFO shall include:
- procedures to ensure that the financial transactions of the Council are recorded as soon as reasonably practicable and as accurately and reasonably as possible;
  - procedures to enable the prevention and detection of inaccuracies and fraud and the ability to reconstruct any lost records;
  - identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers in relation to significant transactions;
  - procedures to ensure that uncollectable amounts, including any bad debts are not submitted to the Council for approval to be written off except with the approval of the RFO and that the approvals are shown in the accounting records; and
  - measures to ensure that risk is properly managed.
- (h) The Council is not empowered by these Regulations or otherwise to delegate certain specified decisions. In particular any decision regarding:
- setting the final budget or the Precept (Council tax requirement);
  - approving accounting statements;
  - approving an annual governance statement;
  - borrowing;
  - writing off bad debts;
  - declaring eligibility for the General Power of Competence; and
  - addressing recommendations in any report from the internal or external auditors, shall be a matter for the full Council only.
- (i) In addition, the Council must:
- determine and keep under regular review the bank mandate for all Council bank accounts;
  - approve any grant or a single commitment in excess of £2,000 and
  - in respect of the annual salary for any employee have regard to recommendations about annual salaries of employees made by the RFO / relevant committee in accordance with its terms of reference.

## **2. Annual Estimates**

- (a) Birchwood Town Council must have a balanced and robust budget for the upcoming financial year. A medium term financial strategy should also be in place to project forward likely income and expenditure for the following two years.

- (b) The RFO must each year, by no later than December, prepare detailed estimates of all receipts and payments for the following financial year in the form of a budget to be considered by the Council.
- (c) As stated in the Local Government Act 2000, it is the responsibility of the full Council to approve the budget and related Precept demand.
- (d) The Council will consider for approval the annual budget proposals in relation to the Council's three-year forecast of revenue and capital receipts and payments including recommendations for the use of reserves and update the forecast accordingly.
- (e) The Council shall fix the Precept (Council Tax requirement), and relevant basic amount of Council Tax to be levied for the ensuing financial year not later than by the end of January each year.
- (f) The approved annual budget shall form the basis of financial control for the ensuing year.

### **3. Budgetary Control**

- (a) Expenditure on revenue items may be incurred up to the amounts included in the approved budget.
- (b) No expenditure may be incurred which will exceed the amount provided in the revenue budget, other than for some exceptional circumstance reported to the Council and for which interim or alternative funding provision could be made. No such expenditure should be incurred without the subsequent resolution of the Council.
- (c) The RFO shall regularly provide the Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure against that planned. This is done as part of the monthly bank reconciliations, presented to Council at the monthly meetings.
- (d) Unspent provisions (other than earmarked reserves) in the revenue budget will fall into balances and shall not be carried forward to a subsequent year.
- (e) No expenditure shall be incurred in relation to any capital project and no contract entered into or tender accepted involving capital expenditure unless the Council is satisfied that the necessary funds are available, or the requisite borrowing approval has been obtained.
- (f) All capital works shall be administered in accordance with the Council's standing orders and financial regulations relating to contracts.

### **4. Accounting and Audit**

- (a) All accounting procedures and financial records of the Council shall be determined by the RFO as required by the Accounts and Audit Regulations.
- (b) The RFO shall be responsible for completing the annual financial statements of the Council as soon as practicable after the end of the financial year and shall submit them and report thereon to the Council.
- (c) The RFO shall be responsible for completing the Accounts of the Council contained in the Annual Return (as supplied by the Auditor appointed from time to time by the Audit Commission) and for submitting the Annual Return for approval and authorisation by the Council within the timescales set by the Accounts and Audit Regulations, or set by the Auditor.
- (d) The RFO/Council shall ensure that there is an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practices.
- (e) The internal auditor shall be appointed by and shall carry out the work in relation to internal controls required by the Council in accordance with proper practices.
- (f) The RFO shall, as soon as practicable, bring to the attention of all Councillors any correspondence or report from the Internal or External Auditor, unless the correspondence is of a purely administrative matter.

## 5. Banking Arrangements and the Authorisation of Payments

- (a) The Council's banking arrangements shall be made by the RFO and approved by the Council; banking arrangement may not be delegated to a committee. They shall be regularly reviewed for efficiency, effectiveness, liquidity and financial market news on their operations.
- (b) All payments shall be affected by cheque, BACS, or other order drawn on the Council's bankers. The Clerk/RFO is delegated with the Chair's approval in the interest of accounting efficiency to move regular standard payment items to the Direct Debit/Standing Order banking mechanism.

Full details regarding the 'Instructions for the Making of Payments', including the payment of salaries, can be found in items 6 and 7 of Birchwood Town Council's Financial Regulations.

## 6. Income

- (a) The collection of all sums due to the Council shall be the responsibility of and under the supervision of the RFO.
- (b) Particulars of all charges to be made for work done, services rendered or goods supplied shall be agreed annually by the Council, notified to the RFO and the RFO shall be responsible for the collection of all accounts due to the Council.
- (c) The Council will review all fees and charges annually, following a report of the Clerk/RFO.
- (d) Any sums found to be irrecoverable and any bad debts shall be reported to the Council and shall be processed in line with the Council's 'Debts and Write Offs' policy.

Full details regarding the handling of any income can be found in item 9 of Birchwood Town Council's Financial Regulations.

## 7. Reserves / Balances

The Local Government Act 2003 requires a Council to ensure that it has a minimum level of reserves and balances and that the Section 151 Officer (the Officer responsible to the Council for the proper conduct of its financial affairs – i.e. the RFO) reports that when the Council agrees an annual budget that he / she is satisfied that the budget will leave the Council with at least the minimum agreed reserve.

- (a) **Reserves:** The Town Council builds up funds to cover the costs of known future liabilities by creating reserves. These are reported to and agreed with Council as earmarked reserves, and may include sums to cover potential damage to or unavoidable decommissioning of Council assets. Any unspent reserves maybe carried forward to allow the Council to accumulate funding for larger projects / requirements in the future.
- (b) **Balances:** The Town Council is required to ensure that it has a 'working balance' in place to act as a contingency in case of unexpected fluctuations in its income and spending. The Town Council's internal auditor has previously recommended that Birchwood Town Council should hold a minimum of 6 months of working balance.

## 8. Additional Financial Considerations

Other items that could affect the Council's financial expenditure / cash flow are also covered in detail within the Town Council's Financial Regulations (FR) including:

FR Item 10: Orders For Work, Goods And Services

FR Item 11: Contracts

FR Item 12: Payments Under Contracts For Building Or Other Construction Works

## 9. **Borrowing and Investments**

### **Borrowing**

Since 2003, Local Councils have been able to borrow to fund capital expenditure. All long-term borrowing by the Council must be 'affordable' and 'prudent'.

The Town Council shall be in accordance with The Local Government Act 2003 when considering borrowing for Capital Expenditure, and will also be guided by the Trustee Act 2000. It shall be reviewed on a regular basis (at least annually).

- (a) The Town Council will consider the Department for Levelling Up Housing & Communities guidance prior to submitting borrowing applications. This involves 6 steps:

### **Resolution to borrow**

- Budget – cash flow forecast
  - Loan affordability
  - Reporting a business case to Council
  - Precept (if applicable) – would it affect the local Precept, if so, by how much, etc.
  - (If applicable) - public consultation on any Precept increase
  - General project consultation via the Council's social media, local press coverage, notice boards, etc.
- (b) All borrowings shall be affected in the name of the Council, after obtaining any necessary borrowing approval. Any application for borrowing approval shall be approved by Council as to terms and purpose. The application for borrowing approval, and subsequent arrangements for the loan shall only be approved by full Council.
- (c) Any financial arrangement which does not require formal borrowing approval from the Secretary of State (such as Hire Purchase) shall be subject to approval by the full Council. In each case a report in writing shall be provided to Council in respect of value for money for the proposed transaction.
- (d) **Public Works Loan Board (PWLB)**

If the Town Council wishes to take out a loan for a capital project, it would apply to the PWLB for such a loan.

The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities. This borrowing is for capital projects.

Minor local authorities such as Town and Parish Councils (in England) may borrow from the PWLB. English Town and Parish Councils need a borrowing approval from the Department for Levelling Up, Housing & Communities (DLUHC) formerly the Ministry of Housing, Communities and Local Government (MHCLG) in order to borrow.

By statutory provision, loans to local authorities are automatically secured on the revenues of the authority rather than by reference to specific revenues, assets or collateral.

### **Investments**

The Council shall consider the Statutory Guidance on Local Government Investments (currently the 3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

Birchwood Town Council's investment priorities are: security of reserves and liquidity of investments; as defined in the Local Government Act 2003: "Security – protecting the capital sum invested from loss; and Liquidity – ensuring the funds invested are available for expenditure when needed".

- (a) The Town Council shall place its reserves / balances in at least two UK banks and / or building societies.
- (b) The majority of the Council's reserves / balances shall be held in an interest bearing account.

- (c) The Town Council shall only consider 'specified investments' as described in the statutory guidance published in 2018 by the [Department for Levelling Up, Housing and Communities](#) (DLUHC) (formerly the Ministry of Housing, Communities & Local Government (MHCLG)) within its Guidance on Local Authority Investments.
- (d) All investments shall be negotiated in the name of the Council and shall be for a set period.
- (e) All investments of money under the control of the Council shall be in the name of the Council.
- (f) All investment certificates and other related documents shall be retained in the custody of the RFO.
- (g) The Town Council will only invest with banks / building societies which are deemed to have either a high quality credit rating and / or a stable and positive outlook.

### **Investment Property**

The Town Council owns the Parkers Farm (office) building and the barn buildings, the car park, and a piece of land to the rear and side of Parkers Farm.

International Accounting Standards (IAS) IAS 40 applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both).

IAS 16 *Property, Plant and Equipment* outlines the accounting treatment for most types of property (including land) plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model.

Investment property will be viewed as an asset when it is likely that any future financial benefits associated with the property will return to the Council, and the cost of the property can be reliably measured (see IAS 40.16 for further detail).

The Town Council reports the value of its property assets as part of the year end accounts using a cost model (the original purchase price).

- (a) **Parkers Farm Complex:** The last major property purchase by the Town Council, was the barn buildings at Parkers Farm, Delenty Drive, WA3 6AN. A loan was arranged with the PWLB for the purchase and renovation of the barn buildings at Parkers Farm.

The purpose of the purchase was for the buildings to be owned and used by the Council. As such (being owner-occupied property) it is not classed as an investment property and is outside the scope of IAS 40.

Birchwood Town Council is the 'guardian' of the barn and office complex on behalf of the community – it is viewed as a 'community asset'.

- (b) **Parkers Farm Car Park:** The purpose of the purchase was for the car park to be owned and used by the Council. It is therefore not classed as an investment property and is outside the scope of IAS 40.
- (c) **Land to the side and rear of Parkers Farm:** The purchase of this relatively small piece of land by the Town Council was effected to prevent further development on the land, access to which would potentially have a negative effect on the day-to-day activities of the Council.

Birchwood Youth and Community Centre (BYCC) is built on the land. The Town Council supports BYCC by renting the land on which it is built and five car parking spaces to them for a current 'peppercorn' annual fee of £1.00 (re-assessed on a yearly basis). As the Council receives the annual fee, the land could technically be classed as an investment property to which IAS 40 applies.

### **Revision**

- (a) This policy will be reviewed annually by the Finance Sub-Committee and any recommendations will be made to the full Council.
- (b) Any revisions to this document will be approved by the full Council.